

## **DISTRICT OF COLUMBIA APPROPRIATIONS FOR FISCAL YEAR 2006**

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**WEDNESDAY, JUNE 15, 2005**

U.S. SENATE,  
COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 10:15 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Sam Brownback (chairman) presiding.  
Present: Senators Brownback, Allard, and Landrieu.

### **DISTRICT OF COLUMBIA**

#### **STATEMENT OF HON. ANTHONY A. WILLIAMS, MAYOR**

##### **OPENING STATEMENT OF SENATOR SAM BROWNBACK**

Senator BROWNBACK. I call the hearing to order. I thank you all for joining us this morning. We are scheduled for an early vote this morning, but what we will do is get the hearing started, get as far along as we can, and then we will have to take a recess for the vote and then we will come back.

I want to welcome the Mayor and the members of the City Council, the Superintendent, the Chief Financial Officer for the District of Columbia, looking forward to the discussion that we will have here this morning.

Today we will hear testimony regarding the District of Columbia's fiscal year 2006 local budget request. D.C. Mayor Anthony Williams, Council Chairman Linda Cropp, Chief Financial Officer Natwar Gandhi will present the city's budget and we will discuss the District's request for Federal resources.

In addition, D.C. School Superintendent Clifford Janey will discuss the D.C. Public Schools' local budget request and his plans for using the \$13 million in Federal funds that have been requested of this subcommittee.

I would like to note that in the last Congress the Senate passed a bill by unanimous consent which would have given the District autonomy over its local budget, eliminating the need for the D.C. local budget to be passed on the annual appropriations bill. By decoupling the local budget from the Federal appropriations process, we would avoid delaying the city's local funds whenever the D.C. appropriations bill is not passed before the end of the fiscal year.

Since the House did not pass a companion measure during the last Congress, Senator Collins, chairman of the Committee on Homeland Security and Government Affairs, has reintroduced a

D.C. budget autonomy bill which her committee will soon be considering.

As we review the local budget, I would like to congratulate city leaders for making dramatic improvements in the District's financial conditions. At a time when many local jurisdiction bonds have been downgraded, the District is enjoying an A rating from all three credit rating agencies. The city is also maintaining a cash reserve balance of about \$250 million, which is among the largest in the country. The city is enjoying an impressive commercial real estate boom and has been creating jobs at a rate that is twice the national average. Congratulations on all of these financial scores. Those are excellent.

There are areas of concern that temper some of these positive facts and I hope to be able to discuss some of those with you today. Only one-third of the jobs that the District is creating are going to city residents. In fact, even as the District has been creating new jobs unemployment in the District has been increasing.

The adult illiteracy rate is something that we have discussed at a hearing previously we had on education, I have discussed privately with the Mayor and with the chairperson. The adult illiteracy rate in the District is 37 percent. The District—this is surely one of the prime reasons for the persistent unemployment problem.

For years we have been failing generations of school students in the District and now we are reaping some of these sad consequences. As I stated in the hearing last month on the D.C. Public Schools, money I do not believe is the direct problem. Funding for the District school system has increased 83 percent since fiscal year 1999 even as enrollment has dropped 5 percent in the same time period. Despite these large increases, only 32 percent of fourth graders are reading at a basic level compared to 62 percent nationwide, and only 36 percent of these students are performing at the basic level in math, compared to 77 percent nationwide.

I know that District officials and others have stated there are reasons for this as this is an urban area and in other States you are comparing urban and broader regions. Still, these numbers are just not acceptable. They are not acceptable for the children, and if we fail the children we will fail future generations, we will fail the District overall.

I want to hear from city leaders about how they plan to rein in school spending and give the superintendent the tools and support to aggressively improve the schools and at the same time what we can do to get these grades and scores up. We simply must do better.

Something I met directly with the Mayor about also is the need to work to support families in the District. This is a key to the future and to education. We have to have a strong family structure so that children at home are being read to and their math is being practiced. We have got five children in our family and it is a constant that you are doing all the time. But if you do not have somebody doing that, you cannot expect them to go to school and be in a prepared situation.

We need to strengthen those families to be able to have the children raised in a better environment and be better prepared to go to school.

Regarding the Federal portion of the D.C. budget, I know that the District has a number of programs and capital projects that may merit funding through this subcommittee. Today I would like to hear more about these project requests from our panel. Although our resources are always limited, as chairman of the subcommittee I look forward to partnering with the city leaders to find ways to make life better for those who live, work, and visit this great capital city.

As usual, witnesses will be limited to 5 minutes for their oral remarks. Copies of all written statements will be placed in the record in their entirety and the hearing record will remain open for the requisite number of days to make that presentation.

I would like to turn over to my colleague Senator Landrieu for opening comments. Senator Landrieu.

STATEMENT OF SENATOR MARY L. LANDRIEU

Senator LANDRIEU. Thank you, Mr. Chairman, and I look forward to working with you and the other members of the subcommittee on this important topic and I want to join with you. I am going to submit my full statement, Mr. Chairman, to the record, but because of the time and because I am very interested and anxious to hear from our panelists today I just want to commend the city for the really extraordinary turnaround, Mr. Mayor, that has taken place on the financial side: the historic surplus, the opportunity that the city has to take some of that surplus and really make some strategic investments for the development of the city. The chair of the Council, thank you, Ms. Cropp, for the work that the Council has done in that regard. Dr. Gandhi, you have given extraordinary leadership.

So because the financial situation of the city has improved quite dramatically with the help of this subcommittee and with Congress, but in large measure due to some of the management decisions that have been made at the city level, we are hoping now that some really good strategic investments can be made as this city looks forward. One of those investments of course could be the school system, which, as the chairman has pointed out, while progress has been made, while we are pleased, Dr. Janey, that you are here and you are providing some excellent ideas for that improvement, that this is a real opportunity for the city and the Council to step up and even partner in a stronger way with the school system.

Great cities cannot be built without great school systems, and this school system, just like many school systems in America, are struggling. Not uniquely, not singularly, but many cities have this same struggle. The difference is that I see, which is a positive difference, is that this city has a surplus. This city has a reserve fund. This city has made significant progress. There are cities, even if they wanted to help their school system, could not do it because their budget situation is so dire.

Now, I understand that there are other needs. Housing is a need, streets and transportation, crime and investments in keeping crime rates down and supporting the police department. I am not unaware of that. We struggle to help our cities in our own States with that.

But truly there is an opportunity here, and I look forward, Mr. Chairman, to continuing to work to identify excellence in our public school system here, to identify failure and eliminate it, identify success and reward it, provide more choice and opportunity for parents, and focus on real results, not process.

The final thing I will say about it is solving this problem with the schools is not just about money. It is about management. When you have on the front page of the newspaper today—and I know this is about the city budget, but the city should be about schools and I know this Mayor is. When you have the front page of the newspaper today stating that schools had to be let out because it is 100 degrees in classrooms, we have to ask ourselves, what more could we do. That is what I hope we can get to later today.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MARY L. LANDRIEU

Welcome Mayor Williams, Chairman Cropp, CFO Dr. Gandhi, and Superintendent Janey. We are so pleased that you could be here this morning to inform us about your fiscal year 2006 DC Local budget. Thank you, Mr. Chairman, for calling this hearing today. I know it will be helpful to us as we prepare to mark up the fiscal year 2006 D.C. Appropriations bill. As you know, the D.C. Appropriations Subcommittee is unique in that it has the responsibility to approve, without change the local funds budget as proposed by the Mayor and passed by the Council. This year's local budget totals \$7.35 billion, of which \$4.95 billion is derived from locally-generated taxes and has been fully debated in the Council of the District of Columbia. I hope that we can continue our focus on the Federal funding provided through this bill to the District government. In the past we have used these funds to both enhance particular local programs or projects and fulfill our sole responsibility to provide oversight to the District's criminal justice functions, the Courts and Court Services and Offender Supervision Agency.

Over the last four years, this Committee has tried to be a partner, not a dictator. As such, we have tried to refrain from altering the local funds budget as passed by the locally-elected leadership of the District—you are best equipped to determine the priorities of city agencies. This is not to say that we cannot be active partners in reform, or provide funding for discreet projects to catalyze improvement, or help to make recommendations in policy in line with Federal law. We have tried to play this role in the areas of education, nudging the leadership to funding excellence, replicate success and eliminate failure.

Great cities, Mr. Chairman, need great schools. I am a city person, having grown up in New Orleans, a city much like D.C. In education is particular, both cities are faced with the ongoing challenge of providing a quality education to all children. The purpose of the public education system in America mirrors much of the mission of the United States as it was formed—to provide an open opportunity for citizens to create, build, and contribute to our great nation. Our primary mission in providing access to a quality was to encourage the development of a creative workforce which would, and has, driven the innovation America is known for.

But the public education system that served us for so long is becoming increasingly outdated and faces many challenges. To survive, I must change and adjust. To remain competitive in competitive times, it must be more consumer focused and less bureaucratic, more dynamic. D.C. itself has suffered a decline in enrollment of 2,000 students every year for the last 10 years. People have grown tired of a slow moving bureaucracy who cannot meet the needs of its students or the workforce demands of our society and they have gone elsewhere I believe that can change and I am encouraged by Dr. Janey's commitment to develop targeted areas of improvement.

One such area we have worked closely on is the \$40 million annual investment in school improvement. In 2004, the Congress initiated a five year demonstration program to invest \$13 million annually in three sectors of education: scholarships to private school, expansion of public charter schools, and strengthening of public schools. I have worked hard not only to invest in leading edge innovation in public charter schools, but also to challenge the oversight of charter schools to be more strenuous. From Dr. Janey's first weeks we have worked to target the funding to public schools to increasing student achievement and teacher readiness. I look forward to hearing about implementation of these funds and plans for fiscal year 2006.

Education is just once piece of the unprecedented increase in Federal dollars that have gone to the city (\$157 million in fiscal year 2003–2005). The last several years have marked an increase in Congressional confidence in local leadership, resulting in increased autonomy for D.C., and increased investment in strategic projects. A more broad challenge was confirmed by the General Accounting Office (GAO) in a landmark study of the District's "Structural Imbalance", finding the city faces an annual deficit of \$400 million to \$1 billion between their revenue capacity and cost of providing average services. The report, requested by D.C. Congresswoman Norton and myself, found the underlying reason for the structural imbalance in the city's budget is the high cost of providing services in D.C. The study also identified management inefficiencies, particularly in schools and Medicaid billing that with attention could realize savings.

Finally, the GAO estimated that the imbalance has caused the District to defer maintenance or invest in critical infrastructure to the tune of \$2.5 billion over the years. In the past the Committee has included a marker on the Federal share of building and maintaining infrastructure in the city, particularly in the area of transportation and the Anacostia River. I hope to build on this investment this year by partnering with the city on major infrastructure investments.

At the same time as working on the structural imbalance, we must focus on other tools for bringing greater prosperity and long term stability to the District. Cities that have good public schools, safe communities and strong families are cities that have strong economies. If we focus on providing these elements in the District, we will go a long way toward the economic independence the city needs and deserves. One such tool Mayor Williams and I have developed—City Build Program for Charter Schools—is a grant program for public charter schools to locate in neighborhoods which have the near-term potential of attracting or retaining residents to meet the goal of increasing the population by 100,000 residents. This can be done by keeping the people you have with services targeted to their needs that would otherwise have moved to the suburbs for the child's public education, transportation issues, or to find affordable housing.

In addition to the investment in these building blocks of neighborhoods, the Committee has focused on ways to support the development of infrastructure which the GAO identified as the primary victim of an imbalance in the city's finances. While the President's budget request has increased the level of projects recommended for Federal funding each year, this year the President made a grave oversight in not funding the Combined Sewer Overflow program. This 30-year, billion dollar renovation of the underground sewer system, built by the Congress in the 1800's, is a key to revitalization of the Anacostia and Potomac waterfronts.

If the city is to have a beautiful baseball stadium at the confluence of these two rivers, and a river walk all the way from Maryland, and wonderful housing and shops at the South East Federal Center, and a grand boulevard on M Street at the Navy Yard, and the revitalization of Reservation 13 extending Massachusetts Avenue down to the water, and recreation for youth and families at Kenilworth Park and Poplar Point, and creating a sanctuary on Kingman Island, and all of the other important improvements for the life of the city, its residents and visitors—how are we to do this alongside a river which suffers from over 80 overflows from the sewer system every year? How are we to make the Anacostia River accessible when contamination is off the charts?

I am pleased to see the Mayor has included funding for the plan to renovate the Combined Sewer system on his list of Federal funding priorities, however if the list is to be read in order of priority it is last. I hope the Mayor and Chairman Cropp can provide some insight into their lobbying efforts to ensure this critical project is funded.

Finally, a major area of annual concern on the D.C. bill is the addition of social riders which require the city to limit their own policies, a limitation which is not placed on other cities. I am committed to treating the District like any other city when it comes to spending locally raised taxes. To that end, I will not support efforts to limit the elected officials in the practice of their duties.

I appreciate the witnesses' time and commitment to the District of Columbia. I have greatly valued our partnership over the last four years and I look forward to working together this year.

Senator BROWNBACK. Thank you, Senator Landrieu.

We do have a vote on now, but I want to go to my colleague Senator Allard for a brief statement, and then we will recess until after the vote. Senator Allard.

## STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Thank you, Mr. Chairman.

I would just like to welcome the Mayor and Dr. Gandhi and Chairman Cropp and Dr. Janey for appearing before the panel here and associate myself with the comments of my colleagues.

Just one other concern that I would like to bring up. As chairman of the Subcommittee on the Legislative Branch appropriations, I have oversight on the new expansion here at the Capitol. It is the visitor center there, and I just would hope that as we move toward the concluding part of the construction on this particular facility that we can make sure that all our ducks are in order as far as meeting the requirements for occupancy. There could be some issues that could come up there and if you see any utility issues or anything that could come up here on the last minute, please work with the contractors and work with the Architect and ourselves and see if we cannot begin to identify these problems early on so that they will not end up in unnecessary delays as we move toward closing down the project and getting the certificate of occupancy.

I want to thank all of you for being here. I have another subcommittee running, so I will not be able to be here for all your testimony. But I will be reviewing it closely and I look forward to working with the chairman on those issues that are important to you.

Thank you very much.

Mayor WILLIAMS. Thank you.

Senator BROWNBACK. Thank you, Senator Allard.

We have 5 minutes left in the vote. We are going to recess the hearing. I would ask my colleagues, if we could, to go over and vote and get back as soon as possible. As soon as I am back, we will start with the presentation. My apologies to this. It is just one of the hazards of the job that when they call a vote you have got to go run and vote.

So the subcommittee will be in recess, hopefully for no more than 15 minutes, and then we will reconvene.

I call the hearing back to order. Again my apologies for the interruption on the energy bill we are voting on.

Mayor Williams, delighted to see you. I want to say publicly, too, when I first came into the Senate, elected in 1996, the District of Columbia was in a very difficult financial condition and many things were not moving in the right direction. We had the emergency board. I am not putting the right title on that. I was the chair of the authorizing committee at that point in time. I worked with you some then.

This has been a dramatic turnaround. It has been a most impressive turnaround. I want to compliment you in particular about that because you have been at the center of much of that change, that turnaround that has taken place, and it is very good to see. I am looking forward to addressing the rest of the issues that remain, but I do not want to take anything away from the efforts that have been made and what has been accomplished in really a relatively short period of time. So my congratulations to you.

The floor is yours.

## STATEMENT OF ANTHONY A. WILLIAMS

Mayor WILLIAMS. Thank you, Mr. Chairman. My full statement has been submitted for the record of the subcommittee and I am going to try to paraphrase wherever I can, not only to keep my remarks within 5 minutes, but to allow you to hear from our other presenters and to have the dialogue that you desire.

I want to thank you and ranking member Landrieu and the other members of the subcommittee for the opportunity to testify before you today. You have already mentioned, Mr. Chairman, as has Senator Landrieu, the fiscal responsibility that we have stressed in our city and the fiscal prowess that we are now enjoying. But I do want to mention one thing in that regard and that is the District's strong financial performance occurs in spite of what I believe is a long-term structural imbalance. Now, that may seem paradoxical. One would ask, how can such an imbalance be real when the economy of the city is so strong?

I believe that the explanation is twofold. First, our residents are among the most heavily taxed people on Earth. Second, the District is deferring massive investments in critical services and infrastructure. Approximately \$2.5 billion of infrastructure has been deferred over the years. Not only outdated sewer system, fixing accumulated needs of our streets, bridges, and mass transit, which have a homeland security component because of our role as the National Capital Region, but also in light of your remarks and Senator Landrieu's remarks and in light of my colleague Dr. Janey I would mention the massive deferral of investment in our schools infrastructure. Whatever we may think about the operating budget of the schools, there clearly is a need for investment in our school buildings. I would agree with you, it really is tragic if the schools have to be closed because our kids are in 100 degree or over classrooms.

Now, last year the subcommittee held a landmark hearing on the District's fiscal challenges and your continued commitment to resolution of this structural deficit will be critical to putting us on a permanent and equitable financial footing. I hope that we can continue in that effort. I would refer to the subcommittee one promising vehicle, the District of Columbia Fair Federal Compensation Act of 2005, which would provide the District with annual Federal payment of \$800 million a year dedicated to transportation projects, debt service payments, public school facilities, information technology investments. It would be on a formula basis, not just for regular operations of government but for strategic things that go to the long-term undergirding of our city.

Now, very briefly, Mr. Chairman, in terms of our priorities in our local budget, I just very briefly mention that one is new communities, a major investment in housing and physical infrastructure in our city's most challenged neighborhoods. We have been very successful in working with two Presidents, both Democrat and Republican, to bring HOPE VI projects to our city. We believe very strongly in the role of mixed income communities, not to displace our low income residents, but to allow our low income residents to live in a healthy community of a mix of incomes, both rental property and home ownership, with all the amenities, the good schools,

the libraries, the recreation centers, all the amenities of a good neighborhood.

Great streets are another major investment in our city, recognizing that in our urban areas of our country our great streets are our major commercial corridors. To accomplish this, we propose \$88 million in investment in revitalization of major corridors in our city, unleashing I believe economic potential on major streets such as Georgia Avenue, H Street, Nannie Helen Burroughs, Benning Road, and other neighborhood arteries.

Roads and bridges are a major priority and our budget reflects this in a major new investment in our city's physical infrastructure, starting with \$230 million of local investment in streets and bridges along the Anacostia Waterfront. This project, which we funded \$35 million in fiscal year 2006, will make critical infrastructure improvements.

Education is a major part of our budget. I will allow Dr. Janey in his time to stress the importance of education, but I want to use this opportunity, Mr. Chairman, to state my full and emphatic and unequivocal support for our superintendent. Now, everybody knows that over the last year I spent a lot of time trying to assume responsibility for the schools and the people have spoken. The people are right in our democracy. So, given where we are, I believe that the locus of authority and responsibility has to be in one place. It cannot be in three places, five places, eight places. It has to be in one place. I believe that the locus of that authority and responsibility, with the support of the Mayor, the support of the Council, our nonprofits, our faith community, our business community, should be in this superintendent. Dr. Janey knows that he has my strong support as he meets a very, very heavy challenge.

Health and welfare and youth are a major investment in our city, and our budget includes new investments in primary health care services through community health centers, which would improve our support for patients from underserved communities. We also provide multiyear funding of \$76 million for our 10-year plan to end chronic homelessness, including investment in wrap-around services.

We make a major investment in tax relief in our city of some \$88 million. I am particularly pleased that this tax relief is spread across all income levels in our city.

Now, very briefly, Mr. Chairman, our request for Federal funding includes, one, as you have come to know, members of this subcommittee know, our strong support for what we call our marquee Federal initiative, and that is the tuition assistance grant program. This has been an absolute tremendous success and we would ask for full funding. This program is funded at \$33 million in the President's budget and we ask for your continued support for this very successful initiative.

The consolidated laboratory, crime lab, we have enjoyed the support of the subcommittee on that and we are requesting that you match the President's mark of \$7 million for this project.

A new mental health hospital in the city is also a major initiative of ours. Last but not least—well, let me, before I get to the last point, we continue our appeal to the subcommittee for funding to provide for long-term control of discharge into the Anacostia River.

The D.C. Water and Sewer Authority (WASA) is embarking on a 30-year plan to fix the system in order to drastically reduce pollution in our waterways, and we ask that the committee support this program in the amount of \$30 million.

This is—the Federal Government plays a major role in the pollution status of the Anacostia River because most of the old city is occupied by the Federal Government. The lack of storm and sewage drainage separation is a result of decisions made way back by the Federal Government. The Federal Government is our major corporate partner of all of our corporate partners. For that reason, we would ask that the subcommittee continue its investment in the Anacostia River, as it has in so many different ways, working with our local leadership and certainly with Congresswoman Norton, who in general I want to applaud for all her leadership on these things.

Then, Mr. Chairman, I reserve for my last appeal something that I know you are interested in. This is the result of bad decisions and management over years and years and years, as you know, a high number of ex-felons in our city, who come back to our city every year. I know this is something that you care about. We have identified access to housing as one of a number of important risks to recidivism for individuals making the transition from prison back to society.

To address this need and to reduce the chance that today's returning prisoners will become tomorrow's homeless and go through that revolving door and end up back in prison, we propose a \$5 million level of funding to do, within a mixed income setting—we are not talking about segregating our ex-felons, but within a mixed income vibrant community—\$5 million to house our ex-felons as we provide them one-stop service to get them back on their feet, get them their training, and get them into jobs.

#### PREPARED STATEMENT

So, Mr. Chairman and Senator Landrieu, that is my testimony. Again, thank you for your partnership. As I close my remarks, I would again make my continued yearly annual appeal for full representation for our beautiful Nation's capital.

Senator BROWNBACK. Thank you, Mayor, and thank you for the discussion and the specifics that you lay out in front of us. I look forward to the question and answer session.

Thank you very much.

[The statement follows:]

#### PREPARED STATEMENT OF ANTHONY A. WILLIAMS

Chairman Brownback, Ranking Minority Member Landrieu, and other distinguished members of this subcommittee, thank you for the opportunity to testify before you today in support of the District of Columbia's fiscal year 2006 budget and financial plan. I continue to appreciate the support and commitment that this committee has provided to our efforts to improve the District of Columbia as a place to live, work, and visit.

With our fiscal house in order, city services improved, and a robust environment for economic and housing development, we now face the challenge and opportunity to ensure that the rising tide we have created lifts all communities.

My remarks this morning will focus on three main goals we have for working with this subcommittee:

—Maintaining fiscal responsibility;

- Responding to citizens’ priorities with local budget decisions; and
- Pursuing federal investments that address our special status as the nation’s capital and invite partnership with the federal government on local priorities.

#### MAINTAINING FISCAL RESPONSIBILITY

The District has achieved a tremendous amount of financial progress over the past decade under the leadership of my administration and the City Council and diligence of the Chief Financial Officer. Fiscal year 2004 marked the District’s eighth consecutive balanced budget; the District has an A rating from all three credit rating agencies which is the highest level we have achieved since the inception of Home Rule; we are maintaining a cash reserve balance of about \$250 million, which is among the strongest in the country; and our fund balance exceeds \$600 million. The turnaround and success of the District, impressive on its own merits, is truly laudable when you consider how much we have achieved over such a short period of time.

In fiscal year 2006, the District’s baseline general fund revenue is projected to grow by 5.6 percent. This strong revenue growth, along with our robust reserves from prior years, have allowed us to submit a fiscal year 2006 budget of \$7.35 billion in total funding that supports 34,635 full-time equivalent (FTE) staff. In local funds, this budget proposes \$4.95 billion in funding and supports 26,787 FTEs.

Despite the temptation to allocate all available resources to programs during strong fiscal years, this budget reflects a high standard of fiscal responsibility by providing for \$88 million in new tax relief. This budget also responsibly ensures that we do not rely on one-time funding for long-term programs and more than half of the growth in this budget comprises one-time expenditures that are not built into the District’s baseline budget.

Even more impressively, we have accumulated this record despite a long-term structural imbalance, which is estimated by the Government Accountability Office to be between \$470 million and \$1.1 billion per year. The GAO cites multiple factors causing this imbalance: the high cost of providing services in the D.C. metropolitan area, the relative poverty of our population, and federal restrictions on our revenue collection authority.

The District’s strong financial performance in spite of a long-term structural imbalance may appear paradoxical. How can such an imbalance be real when the economy is so strong? The explanation is twofold. First, our residents are among the most heavily taxed in the nation, and, second, the District is deferring massive investments in critical services and infrastructure. Approximately \$2.5 billion of infrastructure has been deferred, including renovating crumbling schools, repairing our outdated sewer system, and fixing accumulated needs in our streets, bridges and mass transit system.

As we seek solutions to address the structural imbalance and address our long-standing problems, it is clear that taxing our residents more or providing fewer services are not viable alternatives. Nor can we solve our long-term challenges through additional borrowing. This year, our budget includes a capital outlay of almost \$500 million in new spending, much of which is supported by a one-time windfall of recent, hard-earned surpluses. Though this allows us to begin to address our most pressing capital needs, we remain unable to meet our accumulated needs on our own. An option proposed by the GAO is a change in federal policy to expand the District’s tax base or to provide additional financial support.

One very promising vehicle for resolving this imbalance is the “District of Columbia Fair Federal Compensation Act of 2005”. This bill would provide the District with an annual federal payment of \$800 million a year dedicated to transportation projects, debt service payments, public school facilities, or information technology investments. This approach to addressing the District’s structural imbalance would allow the federal government to invest in infrastructure that benefits the federal government itself, the Washington metropolitan area, as well as the District of Columbia. Last year, this committee held a landmark hearing on the District’s fiscal challenges and your continued commitment to a resolution to our structural deficit will be critical to putting the District on permanent and equitable financial footing.

In addition to addressing the federal contribution to our budget, we also need to repair the federal process for reviewing our budget. This year, the President again endorsed budget autonomy for the District of Columbia and legislation has been introduced in the Congress to provide this authority. This legislation, besides being a well-deserved advancement of Home Rule, would significantly streamline and rationalize our budget process by allowing the city to better align local funds with oftentimes unpredictable and shifting needs. This year, we are hopeful that the Congress will pass legislation this session to provide for budget autonomy. In the mean-

time, we hope you consider intermediate measures to streamline our budget modification process throughout the fiscal year to allow us to better respond to future unanticipated needs. For example, our budget includes language that would allow the District to spend up to an additional 6 percent of our total revenues without coming back to Congress for supplemental budget authority, provided that additional revenues are certified as available by the Chief Financial Officer. This would provide us with the flexibility to respond to changing revenue realities at the local level in a more timely matter than the supplemental appropriation process provides.

#### FUNDING CITIZEN PRIORITIES

This budget funds groundbreaking initiatives that will reshape the physical landscape of the District of Columbia and strengthen our social fabric in a fiscally responsible and balanced manner. This budget has been developed around the core principles of fiscal responsibility, fairness, strategic investments in critical social needs, and improving our infrastructure. With input from residents, the priorities addressed in this budget are housing, employment, better transportation infrastructure, targeted services for youth, and continued commitment and support to education and public safety.

The fiscal year 2006 Budget and Financial Plan will lift all communities by making major new investments in the following initiatives:

##### *New Communities*

New Communities is a major investment in the housing and physical infrastructures of the city's most challenged neighborhoods. Although many District neighborhoods are undergoing rapid change and transformation, there are still places in the city where crime, unemployment, and truancy converge to create intractable physical and social conditions. The New Communities initiative is more than the bricks and mortar transformation of neighborhoods. It is a comprehensive community development program aimed at lifting people and neighborhoods by addressing a community's social and economic ills, along with its physical problems. The long-term goals of New Communities are to meet the needs of lower-income District families and residents by providing critical social support services; decreasing the concentration of poverty and crime; and enhancing access to education, training and employment opportunities, but this effort will begin immediately with a large-scale investment in our housing infrastructure with a special focus on public housing.

##### *Great Streets*

It is important to extend the District's downtown economic success to the neighborhoods throughout the city by leading private investment with public investment. To accomplish this, we propose to securitize new bus shelter revenue to raise approximately \$88 million to invest in the revitalization of the District's corridors, unleashing the commercial potential of Georgia Avenue, H Street, NE, Nannie Helen Burroughs, NE, Benning Road NE and other neighborhood arteries. In order to complement this investment in physical infrastructure with the revitalization of the commerce along these streets, we are dedicating an additional \$16.6 million to attract new businesses and to help existing businesses flourish.

##### *Bridges and Roads*

Our budget reflects a major new investment in our city's physical infrastructure, starting with a \$230 million local investment in the District's streets and bridges along the Anacostia River. This project, which is funded at \$35 million in fiscal year 2006, will make critical infrastructure improvements needed to alleviate congestion and overflow traffic in surrounding neighborhoods. In addition, this budget dedicates approximately \$23.2 million in additional resources for street, sidewalk and alley paving.

##### *Education*

Our fiscal year 2006 budget includes a total of \$1.1 billion in local funds to educate approximately 80,000 students within the District of Columbia Public Schools (DCPS) and public charter schools. This funding level represents an increase of \$101 million, or 10.5 percent, over the fiscal year 2005 budget. The fiscal year 2006 budget is aligned with the Superintendent's core budget request of \$775 million, provides an additional \$25 million to support strategic educational investments at both DCPS and charter schools, funds eleven new charter schools, and allocates \$20 million for additional salary step increases.

To support DCPS capital needs, this budget provides \$147 million in capital funding to support rehabilitation and modernization of D.C. Public School buildings. In addition, this budget includes funding for a new public school modernization fund,

which will provide an additional \$150 million for capital investments. These resources will be made available to the school system provided that DCPS meets criteria regarding co-location, special education space needs, and coordination with other public facilities.

#### *Health and Welfare*

In the area of health care, the fiscal year 2006 budget demonstrates the District's continued commitment to providing health services to residents, particularly those who are underserved. This budget augments primary health care services and increases support for community health centers, which will result in the ability to support additional patients from underserved communities. This budget also includes multi-year funding of \$76 million to support the District's ten-year plan to end chronic homelessness. This funding will go towards providing enhanced wrap-around services for homeless families and individuals, building new housing assistance centers, providing eviction prevention services, and creating subsidized housing.

#### *Children and Youth*

Children and youth are among the most vulnerable of our residents. This budget supports additional funding to provide education, health, enrichment and other opportunities for our children and youth, which is critical in preventing juvenile violence and providing meaningful supports so that young residents grow into productive, engaged members of the District's community.

#### *Tax Relief*

Starting in fiscal year 2006, District residents will benefit from \$88 million in new tax relief. This tax package provides for a balance between income tax relief and property tax relief that is especially targeted to low-income families. All property owners living in their homes and coping with rapidly rising home value assessments will benefit from \$211 in tax relief from an increase in the homestead deduction from \$38,000 to \$60,000. Low-income homeowners will be further protected from rising tax bills by a new provision that will allow households earning less than \$50,000 per year to defer any property tax increases until they sell their house. This will provide for neighborhood stability, especially for seniors who have difficulty meeting rising property tax costs in rapidly changing neighborhoods.

This budget also includes income tax reductions. First, the local Earned Income Tax Credit (EITC) program is being improved to make it one of the most generous programs in the nation by increasing our refundable credit from 25 percent of the federal benefits level to 35 percent of the federal level. Also, for the first time, program benefits will be expanded to cover non-custodial parents who are paying their child support. This provides a work incentive and ensures the equal treatment of parents. In addition to targeted income tax relief, this budget includes a \$500 increase in the standard deduction and a \$130 increase in the personal exemption, which will benefit all taxpayers in the city. These income tax proposals will provide a more progressive complement to the broad tax changes that will be triggered by tax parity in fiscal year 2006. Tax parity reduces the rates of all three of the District's income tax brackets, including a reduction in the top rate from 9.0 percent to 8.7 percent.

#### PRIORITY FEDERAL FUNDING FOR CRITICAL PROJECTS

These local investments will leverage the strength of our economy to lift all communities by investing new resources in our neighborhoods, our infrastructure, and our more challenged communities. Connecting these communities to the economic vitality we are experiencing in many parts of the District is paramount to the continuation of the District's renaissance.

The President's fiscal year 2006 budget has recognized the importance of partnering and contributing toward several of the District's top priorities, including full funding for the Tuition Assistance Grant Program, inflation-adjusted funding for the Three-Sector Education Initiative, funding for the Consolidated Laboratory Facility, funding for the Anacostia Riverwalk and Trail, which is part of my Anacostia Riverfront Initiative, funding for the Criminal Justice Coordinating Council, and funding for the Emergency Planning and Security Cost Fund.

The Tuition Assistance Grant Program is a marquee federal initiative that has been a tremendous success. This program compensates the District for our lack of a state-like university system by allowing our high school graduates to attend out-of-state public universities at in-state tuition rates and providing grants for attending selected private universities. Program costs have continued to grow rapidly due to rising tuition costs nationwide and rising program participation. This program is

funded at \$33.2 million in the President's budget and I ask you to continue your support for this successful initiative by fully funding the President's mark.

Another critical program which was first funded by this subcommittee, and funded for the first time this year by the President at \$7 million, is the Consolidated Laboratory Facility. This laboratory will combine forensics capacities, our medical examiner functions, and our various public health laboratories into a single combined facility, leveraging our capital investment and providing the District with state-of-the-art forensics analysis capacities for the first time at the local level. This will free up resource at the federal facilities which we are currently using for testing while providing additional surge capacity for lab needs throughout the Washington area.

In addition to these important funded projects, our budget request to the Congress includes requests for the following projects that are worthy of congressional attention:

—*Mental Health Hospital.*—The city is constructing a new hospital on the St. Elizabeths campus which will allow us to continue to implement court-mandated improvements in services to our patients. Our current facilities do not meet the standards of care required of the District and the costs of operating our existing buildings are increasingly cost prohibitive. Currently, approximately 17 percent of inpatients that we serve are referred to the city by federal agencies and courts. Therefore, we are seeking a contribution for our capital investment in this new facility at a pro-rated commensurate level of \$32 over the next three years and \$17 million in fiscal year 2006.

—*Ex-Felon Housing.*—We have identified access to housing as one of the most important risk of recidivism for individuals making the transition from prisons back into society. To address this need, and reduce the chance that today's returning prisoners will become tomorrow's homeless, we propose a \$5 million ex-felon housing program to provide organizations and developers with an incentive to construct housing specifically for the ex-felon community. Once this housing is in place, we will devote our existing resources to providing the job training, mental health, and other public services necessary to provide these returning prisoners with a true opportunity to return to society as productive citizens.

—*WASA's Long-Term Control Plan.*—As you know, I believe that the Anacostia River is one our most precious and under-appreciated assets as a city. Improving public access and for the tremendous natural amenities along the Anacostia River is a driving priority of my administration, but my vision for the revitalization of the Anacostia River will not be possible unless we clean up the river by fixing our combined sewer system that currently deposits waste into the river throughout the year. The D.C. Water and Sewer Authority is embarking on a 30-year plan to fix this system in order to drastically reduce pollution in our waterways and I ask that you support this critical program in an amount of \$30 million.

—*Fire/EMS Command Center.*—The District's emergency response functions are outdated and in need of repair. As the fire department for the nation's capital, including the U.S. Capitol, the headquarters for the Fire and Emergency Medical Services is inadequate and does not meet the specifications for a modern emergency response in high-threat environment. The District currently has plans in place to leverage private investment to improve our fire command capacity and in addition provide for new and necessary storage facilities for homeland security emergency response equipment and is requesting a \$10 million contribution as part of our budget to support this investment.

—*Downtown Circulator.*—The city will soon launch a new bus service designed to link the Central Business District and key federal destinations. The Downtown Circulator project will provide the 22 million visitors to Washington, DC with an inexpensive and easy way to move around the Monumental Core while helping to mitigate the impact of street closures for security purposes. The service will connect several of the District's most popular destinations for residents, tourists and even federal employees. In the future, the system could also be adopted by federal agencies as cost-saving replacement for private vehicle fleets and shuttle services. The federal government has contributed to this project in fiscal year 2004 and fiscal year 2005 and the District is requesting an additional \$1 million in fiscal year 2005, which the District will match with local funds on a one-to-one basis on top of considerable support from the city's tourism and business sectors.

## DEMOCRACY FOR THE NATION'S CAPITAL

Having outlined our budget objectives, it is important to keep in mind a District priority whose value is beyond fiscal measure, and that is our democratic rights. The District is the capital of the world's greatest democracy and it is the ultimate hypocrisy that its citizens suffer from the exact disenfranchisement this nation was founded to end.

The United States is continuing to sacrifice hundreds of lives and billions of dollars to spread democracy worldwide, yet denies full democracy to more than a half a million people at its very heart. I urge you to end this injustice and provide the city with full voting representation in the Congress. Anything short of full democracy for our residents should be at the level of personal outrage for all Americans.

In recent years, this subcommittee has successfully resisted efforts to add undemocratic social riders to our appropriations bill. No matter what any Senator's opinion may be on the topic at hand, we hope this body will respect the right of District residents to decide local matters, just as the residents do in our 50 states. We also hope this body will repeal riders that restrict our ability to make decisions about spending local funds on needle exchange programs and lobbying.

This concludes my remarks today. Thank you for the opportunity to testify before you today and I look forward to answering any questions you may have.

Senator BROWNBACK. Chairperson Cropp.

## STATEMENT OF HON. LINDA CROPP, CHAIRMAN, CITY COUNCIL

Ms. CROPP. Thank you very much. Good morning, Chairman Brownback, Senator Landrieu. I am pleased to be here with my colleagues to testify today on the District's budget for fiscal year 2006. This budget represents the ninth year in a row for a fiscally sound and balanced budget. The budget is also a reflection of our resolve to stand as one government that will remain fiscally prudent and responsible.

The budget represents the District's reinvesting in itself and in our future. We have committed resources and services for our citizens through revitalization of our neighborhoods, investment in our youth, and protection of our most vulnerable citizens, promotion of continued economic stability and growth, health programs, child care, and education.

We will invest in our employees with pay raises and prudently set aside \$138 million for future employee health and retirement benefits. These funds will become mandatory in fiscal year 2008 and it is good that we made the decision to allocate them at this time when we have the money.

Fiscal discipline has always been and will be a top priority of our legislative agenda. We will not only demand it of the executive branch, but we also practice it ourselves. The various forms of fiscal discipline from rainy day savings funds, financial safeguards, insurance and investment policies, economic triggers for pay-as-you-go capital financing, that we have demanded and imposed upon ourselves in the past several years have yielded significant returns to the District of Columbia. This is reflected in the District government receiving for the seventh consecutive year an unqualified audit opinion and a positive future outlook of increased ratings from bond rating agencies.

## THE BUDGET PROCESS

During the Council's 56 day review period, we held 66 hearings totaling 322 man-hours where we provided an opportunity for the public to come in and have their input on our budget. The Council

worked diligently with the Mayor in aligning our priorities and put together a fiscally sound and responsible spending plan.

The operating budget funds basic city services and programs. The capital budget, as a result of stringent oversight by the Council, has been realigned. We will devote funds to our infrastructure through investment of over \$300 million in pay-as-you-go funding. For example, funds were redirected and targeted for projects with higher priority and more critical needs, such as schools for children and housing for low and moderate income individuals.

#### HIGHLIGHTS OF THE FISCAL YEAR 2006 BUDGET

On May 10 the Council approved a \$4.9 billion spending plan that provides for adequate funding for basic city services and programs. The budget earmarks \$1.2 billion for public schools and public charter schools. The schools funding increased by \$65 million, human services programs by another \$65 million, and there was an increase in child care specifically by \$11.5 million in the hopes that we could get more of our families out to work.

We have selectively adjusted tax rates to make homeownership more affordable and to reward the hard work of our citizens and businesses. In total, taxes were reduced by \$94 million.

#### FEDERAL BUDGET REQUEST

I would also like to ask for your help in obtaining an approval of an extension of the District's tax incentives that are to expire at the end of the year. The first time home buyer credit, the enterprise zone credit, and the revenue bond program are important to economic development in the District of Columbia. The first time home buyer credit attracts residents to our city and assists persons in purchasing homes that might not otherwise have had an opportunity to do so. The enterprise zone credit and the revenue bond program are real incentives for attracting businesses to operate within the District, and it is important to our economic growth that these tax incentives be reauthorized.

While speaking about items of importance to the District, I would like to mention one other item that is not directly related to the budget. You have heard it before: voting representation. But it is something that is so extremely important to the citizens of the District of Columbia, who pay almost \$3 billion in Federal taxes. It is important for the image of this country, the leader of the free world, to provide to all of its citizens the same rights we fight for abroad, the right for all citizens to be represented by the persons they elect.

A number of different types of legislation have been introduced in the House and in the Senate. Congresswoman Eleanor Holmes Norton's bill, H.R. 398, is an example of one bill. Hopefully, you will be able to embrace one of those bills so that the District's citizens can no longer—will no longer be disenfranchised.

#### BUDGET AUTONOMY

Just like the other 50 States, the District should be solely responsible for approving its own local spending. Achieving such budget autonomy will allow the District to implement its budget in

a timely manner and will assist in improving the city's fiscal management.

I want to thank the subcommittee and the Senate for supporting this initiative in the past and would ask for you to do it again in support of S. 800 the District of Columbia Budget Autonomy Act of 2005.

#### FEDERAL CONTRIBUTION

The District is always challenged in developing its budget due to ongoing structural imbalance that exists between its spending needs and its revenue generation capacity. As noted in the General Accounting Office May 2003 report, the imbalance ranges between \$400 million to \$1.1 billion annually. The report also noted that the cost of providing public services is much higher in the District than it is in the average State due to the relatively large poverty population, poor health indicators, high crime, and high cost of living. The report stated that the District has a very high revenue capacity and the city is already taxing toward the upper limit of our revenue capacity, thereby creating a punitive tax structure.

The congressional limitation on the District's ability to tax certain institutions and persons severely restricts the District's ability to raise revenue needed to cover both the operational and infrastructure costs.

Recently, many of you have heard of the budget surplus that the District has. The budget surplus is only on one end, the management end, due to good management of the day to day operations of the city's budget. But while we have a surplus on that end, it cannot be thought of as a total surplus because we have a deficit in our infrastructure when you look at what our capital needs are, when you look at our school system.

When the issue was brought up of closing the schools, the average age of the District's schools is 80 years of age. So you will see that our capital side is where we cannot continue to borrow money because we are at our capacity, our limit. So we do not even have the dollars necessary or the capacity to go out on Wall Street and borrow the dollars to fix up our schools, which probably need \$1 to \$2 billion. If we did then our bond rating would go down. So we are caught between a dog and a tree and that is not a good position.

So the infrastructure situation with the District is one that we really need to have changed, and it is not because of mismanagement in the District government, but it is because of the unique situations as to how the budget is set. I would ask that at some point that the Congress look at some type of special funding plan for the school system and for Metro.

Metro functions as a way to bring in Federal workers into the District of Columbia. When you look at our capital budget, the herculean share of the city's capital budget is spent in two areas: the D.C. Public School system, where we see there are even greater needs, and Metro. So I hope that that is something that we can look at in the future.

## CONCLUSION

Finally, as you consider our appropriations we request, we ask that you support and pass the budget in time for the start of the new fiscal year and before the adjournment of the 109th Congress. We urge you to pass the budget as is, without any riders. This much anticipated fiscal year 2006 budget is important because it shows how the Mayor and the Council can work together and underscores our commitment to make Washington, DC, one of the best-governed cities in the Nation.

The District's financial problems of the 1990s combined with the national recession earlier this decade, as well as the September 11 attacks, created an environment where we had to disinvest in our budget. Over the past 2 fiscal years, however, we began the process of reinvestment in our city. This fiscal year 2006 budget represents a great leap forward.

We will be responsive to our constituents who call the District of Columbia their home. We will work with the Mayor, the Congress, and the surrounding governments to achieve our mutually shared goals. Together with the Mayor, we will produce good, responsible budgets that invest dollars in making the District of Columbia a much better place for all.

Thank you very much.

Senator BROWNBACK. Thank you very much, Chairperson Cropp. I appreciate that.

[The statement follows:]

## PREPARED STATEMENT OF LINDA W. CROPP

Good morning, Chairman Brownback, Senator Landrieu and members of the Senate Appropriations Subcommittee on the District of Columbia. I am pleased to be here with my colleagues to testify on the District's budget for fiscal year 2006.

## INTRODUCTION

The fiscal year 2006 budget represents for the ninth year in a row, a fiscally sound and balanced budget. This budget is also a reflection of our resolve to stand as one good government that will remain fiscally prudent and responsible. The efforts of the Council and the Mayor, working together, has created a spending plan that continues to provide the services needed to make the District a better place in which to live, to work, to raise a family, and to visit. The budget represents the hard work of all thirteen Council members and the efforts of our ten standing committees. The Council and the Mayor will continue this collaborative effort throughout the year in order to manage government spending.

This budget represents the District reinvesting in itself and our future. We committed resources in services for our citizens through revitalization of our neighborhoods, investment in our youth, protection of our vulnerable residents, promotion of continued economic stability and growth, health programs, childcare and education.

We will invest in our employees with pay raises and prudently set aside \$138 million for future employee health and retirement benefits. These funds will become mandatory in fiscal year 2008 and it is good that we made the decision to allocate them now.

Fiscal discipline has always been and will always be a top priority on our legislative agenda. We not only demand it of the executive branch, we practice it. The various forms of fiscal discipline—from rainy day savings, financial safeguards, insurance and investment policies, economic triggers to Pay-As-You-Go Capital Financing—that we have demanded of, and imposed on ourselves in the past several years, have yielded significant returns to the District of Columbia. This is reflected in the District Government receiving for the seventh consecutive year an unqualified audit opinion and a fiscal year 2004 Comprehensive Annual Financial Report (CAFR) showing a balanced budget. The District continues to maintain an "A" rating from all of the Wall Street financial rating agencies.

In 2005 the Council passed the fiscal year 2006 Budget Submission Requirements Resolution of 2005. It established the date for submission of the Mayor's proposed budget. It required performance plans and reports, and that certain information and documentation be submitted to the Council along with the proposed budget.

#### THE BUDGET PROCESS

During the Council's fifty-six days review period 66 hearings totaling 322 man-hours were conducted. These public hearings are an important part of the budget process. The public hearings provide the citizens and our workforce with an opportunity to comment on and critique programmatic and funding needs, and the performance of government agencies. This feedback is essential in reaching the decisions and determining the recommendations of each committee in the mark-up of the agency budgets.

The Council worked diligently with the Mayor in aligning priorities and, put together a fiscally sound and responsible spending plan. The operating budget funds basic city services and programs. The capital budget, as a result of stringent oversight by the Council, was realigned. We will devote funds to our infrastructure through direct investment of over \$300 million in "Pay-As-You-Go" funding. For example, funds were redirected and targeted for projects with higher priority and critical needs, such as schools for the children and housing for low and moderate-income residents.

The Mayor submitted the budget to the Council on March 21, 2005. The proposed local budget was \$4.903 billion, an increase of \$712 million or 17.1 percent above the revised fiscal year 2005 budget. The Council carefully reviewed the proposed expenditures to ensure that priority programs were properly funded. Adjustments were made through hard decisions between competing program preferences and by rooting out unnecessary budget cushions within the request.

#### HIGHLIGHTS OF THE FISCAL YEAR 2006 BUDGET

On May 10 the Council approved the \$4.949 billion spending plan that provides adequate funding for basic city services and programs. This funding level for fiscal year 2005 represents a growth of 18 percent over the revised fiscal year 2005 local budget. The budget provides \$116.6 million for the production of low and moderate-income housing and increases the funding for childcare, substance and drug abuse treatment, and health care for uninsured residents. In keeping with the seven goals on the Council's legislative agenda, schools continue to receive significant funding. The budget earmarks \$1.2 billion for public schools and public chartered schools. The schools funding increased by \$65 million, human services programs by another \$65 million and the Council is increasing child-care by \$11.5 million.

We selectively adjusted our tax rates to make homeownership more affordable and to reward the hard work of our citizens and businesses. In total, taxes were reduced by \$94 million.

In order to address the Council's concerns about the growth of spending in certain agencies while still wanting to finance programs important to the District's most vulnerable residents, a Pay-Go contingency fund was established. The fund would provide additional financial support to certain agencies once they demonstrate the need for these additional funds. Requests to expend money from the Pay-Go contingency fund require approval by the CFO, the Mayor and the Council.

#### FEDERAL BUDGET REQUEST

The Council supports the Congressional budget request items included in the Mayor's proposal. However, I would like to highlight the Tuition Assistance Grant Program (TAG). The TAG program has been extremely successful in the District. A total of 4,645 students are receiving funds this year from the program. TAG has had a significant impact on furthering the education of these students. Therefore, it is important that the additional \$33.2 million be provided to continue to fully fund this program.

I would also like to ask for your help in obtaining approval of an extension of the District's tax incentives that are to expire at the end of this year. The First Time Homebuyer credit, the Enterprise Zone credit and the revenue bond program are important to economic development in the District. The First Time Homebuyer credit attracts residents to the District and assists persons in purchasing homes that might not otherwise have an opportunity to do so. The Enterprise Zone credit and the revenue bond program are real incentives for attracting businesses to operate within the District. It is important to our economic growth that these tax incentives be re-authorized.

While speaking about items important to the District, I would like to mention one other item that is not directly related to the budget, i.e., voting representation. It is important for the image of this country, the leader of the free world, to provide to all of its citizens the same rights we fight for abroad, the right for all citizens to be represented by persons they elect.

A number of pieces of legislation have been introduced, Congresswoman Eleanor Holmes Norton's bill, H.R. 398 "No Taxation Without Representation Act of 2005" and its companion piece introduced by Senator Joseph Lieberman, S. 195, would treat the District as a State with full voting representation in the House and the Senate. Representative Thomas Davis' bill, H.R. 2043, "District of Columbia Fairness in Representation Act" would add two seats to the House, one to the District of Columbia and one to State of Utah, which narrowly failed to secure a fourth Congressional seat after the 2000 census. In Representative Davis' bill the District would be treated as a Congressional district for the purpose of representation in the House. Representative Dana Rohrabacher's bill, H.R. 190, "District of Columbia Voting Rights Restoration Act of 2005" would treat the citizens of the District as residents of the State of Maryland for the purpose of participating in elections for the House and Senate. While each piece approaches the issue in a different way, the key point is that they all call for voting rights to be granted to the citizens of the nation's capital. I ask that you support voting rights for the District of Columbia.

#### FEDERAL CONTRIBUTION

Historically, the relationship between the District and the Federal Government has been a unique political and financial arrangement. Between 1879 and 1920, the Federal Government would provide assistance by paying half of all District expenditures. Subsequently, given the various federal prohibitions on taxing nonresident incomes, federal properties, federal purchase of goods and services, the District would receive a direct payment. This payment was stopped in 1997 when the Federal Government assumed responsibility for the cost of the contributions to the police, firefighters, and teachers retirement plans, various Court services and portions of other state functions.

It is worth recalling that when the 1997 Revitalization Act was passed, one recommendation was that Congress would not need to review or approve the District's budget because the city would no longer receive any federal payments. At a minimum, Congress should no longer approve the local portion of the District's budget. Under such a proposal the Mayor would notify the Committees on Appropriations of the House of Representatives and Senate in writing 30 days in advance of any obligation or expenditure. Just like the other 50 states, the District should be solely responsible for approving its own local spending. Achieving such budget autonomy will allow the District to implement its budget in a timely manner and will assist in improving the city's fiscal management. I want to thank the Subcommittee and the Senate for supporting this initiative in the past and would ask for your support of S.800 the "District of Columbia Budget Autonomy Act of 2005".

The District Government is always challenged in developing its budget due to the ongoing structural imbalance that exists between its spending needs and its revenue generation capacity. As noted in the General Accounting Office's May 2003 report the imbalance ranges between \$400 million to \$1.143 billion per year. The report also noted that the cost of providing public services is much higher in the District than it is in the average state due to a relatively large poverty population, poor health indicators, high crime, and the high cost of living. The report stated that the District has a very high revenue capacity, and the city is already taxing toward the upper limit of our revenue capacity, thereby creating a punitive tax structure.

The Congressional limitations on the District's ability to tax certain institutions and persons severely restrict the city's ability to raise the revenue needed to cover both operational and infrastructure costs. These limitations are reflected in the streets and schools in need of repair. While the city currently has a management surplus of day-to-day operations, these dollars are insufficient to cover the total cost of infrastructure improvements.

The inability to fund infrastructure costs are not due to mismanagement by the District Government. As noted earlier, the District Government has maintained an "A" rating by the financial rating agencies over the last few years. It is due to the inability to tax revenue at its source and other infrastructure issues addressed in the 2003 GAO report.

Congresswoman Eleanor Holmes Norton has introduced Bill H.R. 1586, the "District of Columbia Fair Federal Compensation Act of 2005". The bill outlines the unique situation of the District of Columbia as a federal city. It proposes an annual federal payment of \$800 million with provisions to adjust the number in the future.

The \$800 million would be made available to address important structural needs of the city, which the District Government cannot fully fund from its current budget. Transportation and street maintenance, information technology and DCPS capital improvements are essential to the running of the city. I ask for this Subcommittee to support this legislation and encourage adoption by the Senate.

#### CONCLUSION

Finally, as you consider our appropriations request, we ask that you support and pass the budget in time for the start of the new fiscal year and before the adjournment of the 109th Congress. Furthermore, we urge you to pass the budget as is, without any extraneous riders. This much anticipated fiscal year 2006 budget is important because it shows how the Mayor and the Council can work together and underscores our commitment to make Washington D.C. one of the best governed cities in the nation.

The District's financial problems of the nineties combined with the national recession earlier this decade, as well as, the September 11th attacks created an environment, where we had to disinvest to balance our budget. Over the past two fiscal years, we began the process of reinvestment and this fiscal year 2006 budget represents a great leap forward.

We will be responsive to our constituents who call the District their home. We will work with the Mayor, Congress, and the surrounding governments to achieve mutually shared goals. Together with the Mayor, we will produce good responsible budgets that invest dollars for the District and leave a legacy for future generations.

I thank you for this opportunity to present the fiscal year 2006 budget and these issues of major importance to the District of Columbia.

Senator BROWNBACK. Dr. Gandhi, and if you could stay within the timeframes. We are going to be running tight on this hearing and we both would like to have some exchanges back and forth. So I will probably put the hook on the last two witnesses a lot tighter than I have on the front two.

Dr. Gandhi.

#### STATEMENT OF NATWAR M. GANDHI, Ph.D., CHIEF FINANCIAL OFFICER

Dr. GANDHI. Thank you, Mr. Chairman. Good morning, Mr. Chairman, Senator Landrieu, and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia, and I am here to testify on the District's 2006 budget request and the overall health of the District's finances.

The Congress created the Office of the Chief Financial Officer to preserve, protect, and enhance the District's financial viability and credibility at all times. I am pleased to report to this subcommittee, Mr. Chairman and Ms. Landrieu, that the District has again made substantial progress in the past year, marking the eighth consecutive year of fiscal recovery.

We again achieved a balanced budget and received a clean audit opinion from our external auditors and improved the District's financial infrastructure. The graph on the chart before you, sir, illustrates the turnaround in our general fund balance from a negative \$518 million in 1996 to a positive \$1.2 billion at the end of 2004. Many cities that have gone through control period experience, such as New York, Philadelphia, Cleveland, none has been able to come back as well and as fast as the District has.

Roughly half of that fund balance is reserved as a result of congressional mandate or is legally reserved for bond escrows or other purposes. The fund balance is likely to climb in the current fiscal year to reach an unprecedented level of approximately \$1.3 billion.

Our emergency and contingency reserves totaled \$285 million, among the highest such reserves as a percentage of the budget of

all major cities or States in the Nation. Last year, recognizing that our reserves were strong, Congress lowered reserve requirements to 6 percent from 7 percent. This fiscal year we estimate these reserves will be about \$250 million, an amount that is still expected to be among the highest in the country.

We have again received favorable reviews from the bond rating agencies. Standard & Poor raised the rating on the District's general obligation bonds to A from A minus, and Fitch placed the District's A minus rating on a positive outlook for a possible upgrade.

Again, this year I must stress that it is time to grant the District of Columbia local budget autonomy—can I illustrate a point, sir? Do you have a question on this?

Senator BROWNBACK. My eyes are not quite as good as they used to be, so I am trying to make sure——

Dr. GANDHI. Well, I can withhold my testimony to explain this.

Senator BROWNBACK. Please go on. Please proceed.

Dr. GANDHI. All right. Because what really matters here is that in the mid-90s we were very near bankrupt and today we are really a welcome presence on Wall Street. We have accomplished this financial stability by institutionalizing changes that have been commended by rating agencies and investors. We are monitoring the budget on a constant basis and have enabled decisionmakers to receive timely and accurate information on which to make informed judgments.

Without budget autonomy, we must prepare specific spending plans and revenue estimates at least 9 months in advance of the beginning of the actual budget year, a constraint under which no other State or municipal government operates. This issue of timing has added far greater uncertainty in budget planning and has posed more difficulty in executing the budget as well.

In fiscal year 2006, the District's certified general fund revenue is forecasted to be \$4.8 billion, an increase of about 14 percent over 2005. Underlying the District's robust revenue growth is continued strength in the District's real estate market and strong growth in personal income.

As Chief Financial Officer, sir, I believe that it is not the role of the government to amass a large amount of cash when needs for infrastructure and other prudent investments must be met. The magnitude of resources available for budgeting both from the improved level of current revenues and the sizable accumulated surplus in the fund balance provides an opportunity to address critical needs of the District. Accordingly, the proposed budget before you, sir, would result in a reduction in the general fund balance of about \$610 million. This amount is composed almost entirely of one-time spending and reduction of large pension liabilities that our Council Chair, Mrs. Cropp talked about and programs to address critical social needs that the Mayor talked about.

I believe this spending level and the uses of fund balance are fiscally prudent and will not endanger the District's sound financial position or our strong credit standing. This is demonstrated in the 5-year proposed budget and financial plan attached to my testimony. Unlike any other jurisdiction, the District prepares a 5-year plan so as to assure the Congress that the District will remain financially viable for 5 years.

Since Mrs. Cropp and the Mayor talked about structural imbalance, I will not go into that. I would simply note that the GAO's structural imbalance report identifies about \$470 million to about \$1 billion of structural imbalance, this structural imbalance somehow has to be helped by the Federal Government. There are not enough local resources to address the imbalance, and I request and strongly urge, that Congress take positive action on Congresswoman Norton's bill, the District of Columbia Fair Federal Compensation Act of 2005, (H.R. 1586).

#### PREPARED STATEMENT

That concludes my oral remarks, Mr. Chairman, and I request that my written testimony be made part of the record. I will be pleased to answer any questions you or Mrs. Landrieu may have. Thank you.

Senator BROWNBACK. Your formal testimony will be made part of the record. We look forward to the discussion.

[The statement follows:]

#### PREPARED STATEMENT OF NATWAR M. GANDHI

Good morning, Mr. Chairman, Senator Landrieu, and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here today to testify on the District's fiscal year 2006 budget request to the Congress. My remarks will briefly touch on the fiscal year 2005 financial outlook, the fiscal year 2006 request, and the overall health of the District's finances.

#### CONTINUING FINANCIAL STRENGTH

The Congress created the Office of the Chief Financial Officer to preserve, protect and enhance the District's financial viability and credibility at all times. I am pleased to report that the District has again made substantial progress in the past year, marking the eighth consecutive year of fiscal recovery. We again achieved a balanced budget and received a clean audit opinion from our external auditors and improved the District's financial infrastructure. The graph on Attachment 1 illustrates the turnaround in our general fund balance from a negative \$518 million in fiscal year 1996 to a positive \$1.2 billion fund balance at the end of fiscal year 2004. Roughly half of that fund balance is reserved as a result of Congressional mandate, or is legally reserved for bond escrows or other purposes. The fund balance is likely to climb in the current fiscal year to reach an unprecedented level of approximately \$1.3 billion.

Our emergency and contingency reserves totaled \$285.4 million, among the highest such reserves as a percentage of budget of all major cities or states in the nation. Last year, recognizing that the District's reserves were strong, Congress enacted legislation lowering the total reserves required to 6 percent from 7 percent. This fiscal year, we estimate that the emergency and contingency reserves will be about \$249 million, an amount which we expect will still remain among the highest in the country.

We have again received favorable reviews from the bond rating agencies. Standard & Poor's raised the rating on the District's general obligation bonds to A from A- last November and at the same time, Fitch Ratings placed the District's A- rating on positive outlook for possible upgrade. The graph in Attachment 1 also shows the history of the District's ratings by all three major bond rating agencies.

We continue to strive to improve on this record of accomplishment. Our standardized spending plans for all agencies allow us to monitor results against those plans, and we continue to control agency spending using our online financial management tools. Spending plans are one component of the District's own Anti-Deficiency Act designed to hold financial and program managers accountable for achieving program results within approved budgets. We have built performance budgets across all agencies that set specific targets which are benchmarked against best practices in local government.

Again this year, I must stress that it is time to grant the District of Columbia local budget autonomy. We have accomplished financial stability by institutional-

izing changes that have been recognized by rating agencies and investors in the District's bonds and notes. We have established systems to monitor our budget on a constant basis and have enabled decision makers to receive timely and accurate information on which to make informed judgments. Without autonomy we must prepare specific spending plans and revenue estimates at least nine months in advance of the beginning of the actual budget year, a constraint under which no other state or municipal government must function. This issue of timing has added far greater uncertainty in budget planning and formulation and has posed more difficulty in executing the budget as well. We have been fortunate in recent years in finding that our revenues have far exceeded our forecasts, but such time constraints have forced us to be overly conservative in our estimates, and have prevented us from providing tax relief or larger service benefits to our taxpayers as a result of those excess revenue collections. Congresswoman Eleanor Holmes Norton has introduced the District of Columbia Budget Autonomy Act of 2005, H.R. 1629, and Senator Collins introduced an equivalent bill, S.800, which would allow the Mayor and City Council to enact the locally funded portion of the District's annual budget. We appreciate the interest of this Subcommittee on the matter of budget autonomy and urge the Congress to consider the bills favorably.

#### BEGINNING FUND BALANCE, GENERAL FUND

As noted in the fiscal year 2004 Comprehensive Annual Financial Report (CAFR), the District concluded fiscal year 2004 operations with a \$1.215 billion general fund balance (i.e., net accumulated surplus).

Based on current revenue and expenditure estimates, the General Fund is expected to end fiscal year 2005 with an operating surplus of \$320.6 million. The general fund balance is likely to reach \$1.35 billion at the end of fiscal year 2005.

#### FISCAL YEAR 2006 REVENUES

In fiscal year 2006, District's certified general fund revenue is forecasted to be \$4.81 billion, an increase of 13.8 percent over fiscal year 2005 approved budget after tax policy changes. Underlying the District's robust revenue growth is continued strength in the District's real estate market and strong growth in personal income. Substantial increases in prices and the number of transactions in both residential and commercial real estate markets were major sources of revenue gains in fiscal year 2003 and fiscal year 2004, and are expected to contribute significantly to fiscal year 2005 and fiscal year 2006 revenues. Going forward, our revenue projections assume District personal income will grow between 5 and 6 percent annually, and the financial markets will continue their recovery.

The fiscal year 2006 Proposed Budget includes tax policy reductions of \$35.0 million and revenue shifts to capital of \$30.0 million. The tax policy reductions include an increase in the homestead deduction, an increase in the local Earned Income Tax Credit, increases in both the standard deduction and the personal exemption, and a property tax deferral for low-income homeowners. The revenue shift to capital is to provide a dedicated stream of revenues to finance major investments in bridges and roads.

#### FISCAL YEAR 2006 PROPOSED EXPENDITURES

As Chief Financial Officer, I believe that it is not the role of government to amass large amounts of cash when needs for infrastructure improvements and other prudent investments in the future must be met. The magnitude of resources available for budgeting, both from the improved level of current revenues and the sizable accumulated surplus in the fund balance, provides an opportunity to address critical needs of the District.

Accordingly, this proposed budget would result in a reduction in the general fund balance of \$610 million, to a balance of \$740.2 million, from the projected year-end fiscal year 2005 fund balance. This amount is composed almost entirely of one-time spending or transfers for future and retroactive pay-as-you-go capital funding, a reduction of a large pension benefit liability, policy shifts to special purpose and capital funds and operating budget programs to address critical social needs. I believe the spending levels and the uses of fund balance contained in this budget proposal are fiscally prudent and will not endanger the District's sound financial position or our strong credit standing. As shown in the table below, the Mayor and Council have weighed these financial opportunities in formulating policy goals for fiscal year 2006, as incorporated into this proposed budget.

TABLE 2.—GENERAL FUND PROPOSED FISCAL YEAR 2006 BUDGET SUMMARY

[In millions of dollars]

	Amount
Total Revenues .....	4,871.2
Less Recurring Budget Expenses .....	(4,804.9)
Excess Revenues .....	66.3
Less Tax Policy Reductions and Revenues Shift to O type and Capital .....	(65.0)
Add Appropriated Fund Balance .....	591.6
Sources for Program and Fiscal Policy Initiatives .....	592.9
Less Non-recurring Budget Expenses .....	(399.8)
Less Fiscal Policy Initiatives .....	(191.8)
Projected fiscal year 2006 Operating Margin .....	1.3

The fiscal year 2006 general fund budget spending proposal of \$5.40 billion is 19.8 percent higher than fiscal year 2005 approved spending of \$4.5 billion. This represents increases in both recurring expenses and the one-time uses of fund balance which I discussed previously. Recurring budget expenses of \$4.80 billion are a net increase of \$467 million, or 10.8 percent, over the fiscal year 2005 approved budget.

TABLE 3.—GENERAL FUND FISCAL YEAR 2006 BUDGET SUBMISSION

[Dollars in millions]

	Fiscal year 2005	Fiscal year 2006	Change	Percent change
Recurring Budget Expenses .....	\$4,337.8	\$4,804.9	\$467.1	10.8
Program Policy Initiatives:				
Nonrecurring Budget Expenses .....	165.0	192.8	27.8	16.8
PayGo Capital (Nonrecurring) .....		207.1	207.1	n/a
Net Change: Recurring Expenses and Program Policy Initiatives .....			702.0	
Non-recurring Fiscal Policy Initiatives:				
Post Employment Health Benefits .....		138.0	138.0	n/a
Contribution to Capital Fund Balance .....		53.8	53.8	n/a
Total General Fund Request .....	4,502.8	5,396.6	893.8	19.8

## FINANCING THE BUDGET REQUEST

To finance both the program and fiscal policy initiatives, the District utilizes \$591.6 million from the accumulated fund balance. The planned drawdown of fund balance will reduce the accumulated general fund balance to a projected \$740.2 million by the end of fiscal year 2006.

TABLE 4.—FISCAL YEAR 2006 GENERAL FUND BALANCE ANALYSIS

[In millions of dollars]

Projected Beginning Fund Balance (October 1, 2005) .....	1,350.6
Appropriated for Fiscal Year 2006 .....	(591.6)
Projected Fiscal Year 2006 Operating Margin .....	1.3
Projected GAAP Adjustments .....	(20.0)
Projected Ending Fund Balance (September 30, 2006) .....	740.2

## PROPOSED FISCAL YEAR 2006 GROSS FUNDS BUDGET

The proposed fiscal year 2006 gross funds operating budget is \$7.35 billion, an increase of \$1.07 billion, or 17.0 percent, over the approved fiscal year 2005 gross

funds budget of \$6.29 billion. The \$1.07 billion expenditure increase is comprised largely of a \$893.7 million increase in the General Fund budget, which reflects the program policy initiatives and fiscal policy initiatives discussed above. The other \$171.9 million increase in non-local funds reflects projected expenditures in federally funded programs (\$169.0 million), including Medicaid; and private grants (\$2.9 million).

TABLE 5.—FISCAL YEAR 2006 GROSS FUNDS BUDGET BY FUND TYPE  
[Dollars in millions]

Fund Type	Fiscal year 2005	Fiscal year 2006	Change	Percent Change
Local .....	\$4,170.1	\$4,949.5	\$779.4	18.7
Special Purpose (O Type) .....	332.8	447.1	114.4	34.4
Subtotal, General Fund .....	4,502.8	5,396.6	893.7	19.8
Federal .....	806.3	931.4	125.1	15.5
Federal Medicaid Payment .....	963.8	1,007.6	43.9	4.6
Private Grants .....	13.3	16.2	2.9	21.8
Total Gross Funds .....	6,286.2	7,351.8	1,065.6	17.0

#### CAPITAL IMPROVEMENTS PLAN

The District faces a wide variety of infrastructure needs, placing great demands on its Capital Improvements Plan (CIP). The total proposed appropriation request for the fiscal year 2006-fiscal year 2011 CIP is \$2.176 billion for all sources (including the Highway Trust Fund). This six-year plan includes a net increase in local budget authority of \$778 million (\$1.073 billion of new budget authority offset by \$295 million of rescissions). The increased budget authority will be financed by General Obligation (G.O.) bonds, the Master Equipment Lease Program, asset sales and PayGo financing. The fiscal year 2006 capital program consists of \$737 million in planned local non-streets capital expenditures (financed by up to \$495 million in new G.O. bond issuance, \$199 million of PayGo transfers from the General Fund balance, and \$43 million from other sources), as well as \$60 million of expenditures from the Local Streets Maintenance fund.

#### PERFORMANCE BUDGETING

This budget also reflects our continued progress implementing performance-based budgeting (PBB). In fiscal year 2005, we transitioned 11 new agencies to PBB for a grand total of 67 agencies now fully enrolled in PBB for fiscal year 2006. These 67 agencies account for nearly 63 percent of the District's annual gross operating budget. Transition to PBB is a key accomplishment because it establishes a clear relationship between the funding that agencies receive, the programs they operate, and the results that they must achieve. A critical component of PBB is development of programmatic benchmarks to assist policy makers, District executives and the public in assessing the value of the District's programs and determining opportunities for improvement. The current set of benchmarks for District programs has grown from 39 benchmarks for 18 agencies in fiscal year 2005 to 71 benchmarks for 26 agencies in the fiscal year 2006 proposed budget.

#### STRUCTURAL IMBALANCE IN THE DISTRICT'S BUDGET

Mr. Chairman, despite this record of balanced budgets, there remains an ongoing, long-term financial problem, and that is the issue of the structural imbalance. This serious situation has been documented a number of times by sources outside the District including most notably by the General Accounting Office in report GAO-03-666 back in May 2003. This report defines a financial structural imbalance as the inability to provide a representative array of public services by taxing at representative rates. The District is the only city in the nation that has no state to share costs or underwrite expenditures in whole or part. The District bears about \$500 million annually in costs of mental health, human services, child and family services, a university, motor vehicles licensing, taxation, insurance regulation, public service commission, and other services performed at the state level.

The District's primary employer—the federal government—has exempted itself from taxation on its property and its income. Further, the preponderance of workers

in the District of Columbia are exempt from D.C. income tax because they reside in the neighboring states of Maryland and Virginia. Finally, the District is the only municipality in the nation that must exercise the responsibilities of a city, a county, a state and a school district. Although the District has the authority for all types of taxes typically levied by states and municipal governments, it does not have the corresponding tax base sufficient to pay for the services it must provide.

Again this year, I must ask the Subcommittee to consider the necessity of providing some additional federal consideration of the District's infrastructure needs. The District has pressing infrastructure needs—mostly in our schools, streets and transportation—that we cannot possibly fund locally. D.C. already has the highest per capita general obligation debt in the nation and, according to the GAO report, a tax burden that is 18 to 33 percent higher than average for the states. Our only options for addressing these infrastructure needs locally are:

- Adding even more debt per capita;
- Increasing the tax burden per capita—an action that is likely to discourage potential residents and employers and possibly drive current residents out of the city; or
- Reduce delivery of other services—a very difficult choice in a city with a large population of people in need.

The GAO report stressed the unique financial challenges the District faces in generating the funds to finance usual and necessary services, and identified an annual structural imbalance of \$470 million to \$1.14 billion between the costs of delivering typical services and the revenue available from typical tax burdens, based on fiscal year 2000 budget and data. Over the years, the District dealt with this gap by neglecting infrastructure needs and assessing very high taxes.

For example, our capital program is constrained by limited operating revenues to support debt service as well as by the impact of prudent debt ratios and debt affordability determinations. The District's capital needs are now estimated to be about \$7 billion, but our capital spending plan in fiscal year 2006-fiscal year 2011 for which we have identified funding sources is only about \$2 billion, leaving a gap of about \$5 billion. If borrowing occurs as planned, our tax-supported debt per capita will rise to over \$11,000 by fiscal year 2009.

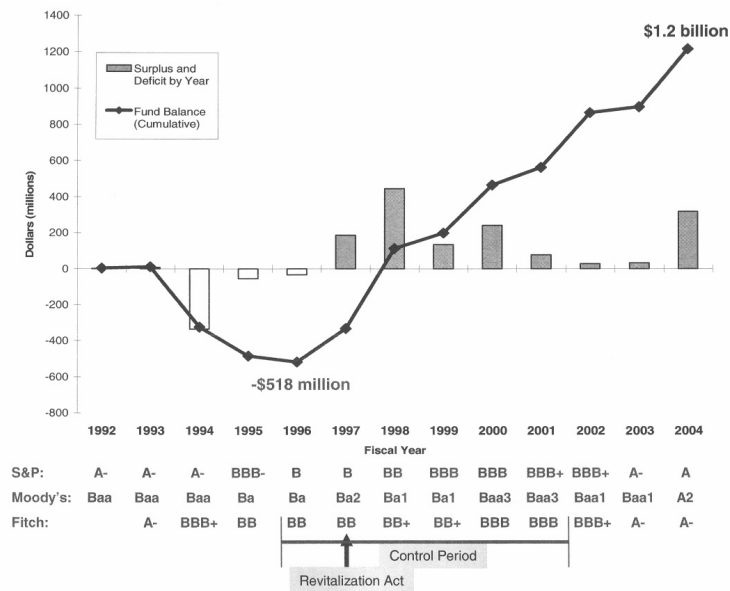
Again this year, Congresswoman Norton has introduced a bill, the Fair Federal Compensation Act of 2005, H.R. 1586 to address the structural imbalance, to relieve some of the unsustainable burden on the D.C. government and residents and businesses and to prevent another fiscal crisis for the capital city. We urge Congress to take action to enact this important legislation.

#### CONCLUSION

Mr. Chairman, this concludes my remarks. I request that my written testimony be made part of the record. I will be pleased to answer any questions you or the other members may have.

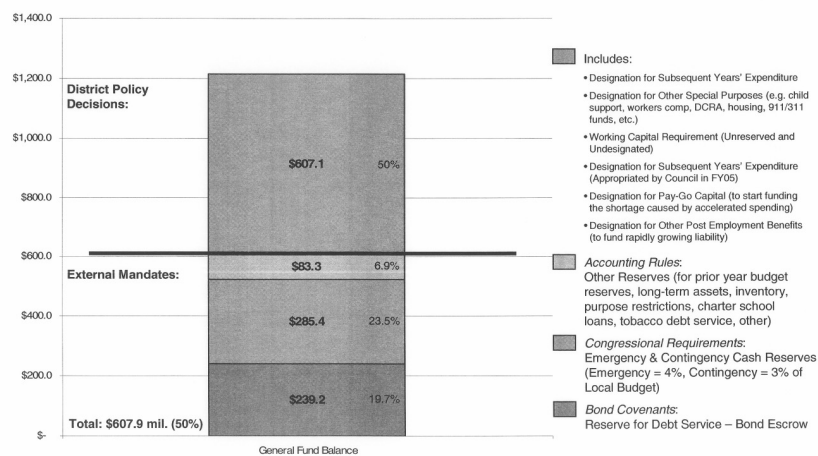


## General Fund Balance History



## FY 2004 General Fund Balance

(\$ in millions)



Total as of September 30, 2004: **\$1,215.0 million**

## RESERVE REQUIREMENTS

[In millions of dollars]

Fund Type	Fiscal year—					
	2004	2005	2006	2007	2008	2009
Emergency & Contingency Cash .....	285	249	254	258	302	307
Budgeted .....	50	50	50	50	50	50
<b>Total</b> .....	<b>335</b>	<b>299</b>	<b>304</b>	<b>308</b>	<b>352</b>	<b>357</b>

Cash Reserve Requirements Reduced from 7 percent to 6 percent; Emergency Reserve changed from 4 percent to 2 percent; and Contingency Reserve changed from 3 percent to 4 percent.

## DISTRICT OF COLUMBIA FISCAL YEAR 2006–2009 PROPOSED BUDGET AND FINANCIAL PLAN—GENERAL FUND

[In thousands of dollars]

	Fiscal Year—						
	2004 Actual	2005 Ap- proved	2005 Revised	2006 Pro- posed	2007 Pro- jected	2008 Pro- jected	2009 Pro- jected
Revenues:							
Taxes .....	3,665,195	3,628,730	3,875,218	4,101,533	4,330,091	4,610,561	4,890,072
General Purpose Non-Tax Revenues .....	324,493	292,447	330,973	340,522	342,896	338,513	346,573
Special Purpose (0-type) Revenues .....	240,253	208,624	236,026	264,254	273,603	280,326	287,789
Transfer from Lottery .....	73,500	71,100	70,000	73,100	73,100	73,100	73,100
General Fund Revenues .....	4,303,441	4,200,901	4,512,217	4,779,409	5,019,690	5,302,500	5,597,534
Bond Issuance Costs .....			15,400	40,000	16,000	16,000	15,615
Payment-in-Lieu-of-Taxes from WAKSA .....			1,500	1,576	1,622	1,669	1,717
Transfer from Federal and Private Resources .....		6,361	6,361	6,502	6,646	6,807	6,979
Fund Balance Use .....	129,128	165,015	165,015	591,642			
Transfer to Special Purpose Revenues .....					(30,300)	(30,603)	(30,909)
Transfer to Capital .....				(30,000)	7,607	9,367	11,137
Revenue Proposals/One-time Revenue .....		128,107	76,600	8,729			
Total General Fund Resources .....	4,432,569	4,500,384	4,777,093	5,397,858	5,021,265	5,305,740	5,602,073
Expenditures (by Appropriation Title):							
Governmental Direction and Support .....	231,364	315,813	327,899	340,859	326,649	336,654	346,999
Economic Development and Regulation .....	148,949	241,570	216,715	328,156	246,557	252,885	259,394
Public Safety and Justice .....	746,066	790,815	799,194	827,037	864,258	884,495	917,173
Public Education System .....	1,029,193	1,067,666	1,055,821	1,189,302	1,194,175	1,228,423	1,263,822
Human Support Services .....	1,117,035	1,192,755	1,244,598	1,307,530	1,345,993	1,401,101	1,458,860
Public Works .....	314,620	327,936	328,334	366,101	373,427	388,605	404,451
Financing and Other .....	400,963	511,692	468,917	588,717	607,655	642,994	678,362
Cash Reserve (Budgeted Contingency) .....		50,000	15,000	50,000	50,000	50,000	50,000
Lease Purchase Costs .....						20,000	25,000
Subtotal, Operating Expenditures .....	3,988,190	4,498,247	4,456,478	4,997,702	5,008,714	5,205,156	5,404,062
Paygo Capital .....				207,083	10,000		

DISTRICT OF COLUMBIA FISCAL YEAR 2006–2009 PROPOSED BUDGET AND FINANCIAL PLAN—GENERAL FUND—Continued  
[In thousands of dollars]

	Fiscal Year—						
	2004 Actual	2005 Ap- proved	2005 Revised	2006 Pro- posed	2007 Pro- jected	2008 Pro- jected	2009 Pro- jected
Transfer to Trust Fund for Post-Employment Benefits .....							
General Fund Contribution to Capital Fund Balance .....				138,000		81,000	86,200
Total General Fund Expenditures .....	3,988,190	4,498,247	4,456,478	5,396,585	5,018,714	5,286,156	5,490,262
Operating Margin, Budget Basis .....	444,379	2,137	320,615	1,273	2,551	19,583	111,810
Beginning General Fund Balance .....	897,357	1,215,015	1,215,015	1,350,615	740,246	722,798	722,380
Operating Margin, Budget Basis .....	444,379	2,137	320,615	1,273	2,551	19,583	111,810
Projected GAAP Adjustments (Net) .....	2,407	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Deposits into Reserve Funds (From Fund Balance) .....	(31,609)	(19,041)	36,032	(4,489)	(4,570)	(43,113)	(5,428)
Deposits into Reserve Funds (To Cash Reserves) .....	31,609	19,041	(36,032)	4,489	4,570	43,113	5,428
Tax Increment Financing (TIF) Reserve (From Fund Balance) .....		(9,710)	(9,710)	(9,710)	(9,710)	(9,710)	(9,710)
Unspent TIF Reserve .....		9,710	9,710	9,710	9,710	9,710	9,710
Fund Balance Use .....	(129,128)	(165,015)	(165,015)	(591,642)			
Ending General Fund Balance .....	1,215,015	1,032,137	1,350,615	740,246	722,798	722,380	814,190
Composition of Fund Balance:							
Emergency Cash Reserve Balance (2 percent, formerly 4 percent) .....	163,091	179,930	83,126	84,622	86,145	100,516	102,325
Contingency Cash Reserve Balance (4 percent, formerly 3 percent) .....	122,318	124,520	166,251	169,244	172,290	201,032	204,651
Fund Balance not in Emergency & Contingency Reserves .....	929,606	727,687	1,101,238	486,381	464,363	420,832	507,214
Ending General Fund Balance .....	1,215,015	1,032,137	1,350,615	740,246	722,798	722,380	814,190

Senator BROWNBAC. Dr. Janey, it is good to see you again in this hearing and I look forward to your testimony.

**STATEMENT OF CLIFFORD JANEY, Ph.D., SUPERINTENDENT OF SCHOOLS, DISTRICT OF COLUMBIA PUBLIC SCHOOLS**

Dr. JANEY. Thank you very much.

I am going to make some adjustments in my testimony to observe the need for us to have some dialogue, but my brevity in no way should diminish I think some of the important issues that face us, not only as a school district but as the District of Columbia.

Thank you for providing me the opportunity, Chairman Brownback and Senator Landrieu. I believe the fiscal year 2006 budget request reflects the collaborative spirit necessary for an educational agenda to be realized. I believe we must move aggressively to meet the needs of our students and our goal must be to regain our public credibility, improve student performance, raise our expectations, and establish a real system of accountability.

With this in mind, the fiscal year 2006 budget was designed to begin to address some of the malaise in our system by proposing new initiatives that address three key goals. They are: boosting and sustaining academic performance; improving our facilities; updating and upgrading our instructional technology.

To a certain extent, we will be able to accomplish this by investing our allocated money for fiscal year 2006 of \$775 million in quality academic programs and operational reforms. If we continue to stay focused on our common goal of improving the quality of education for D.C. students, we can accomplish even more. The support and leadership of the Board of Education and the fact that Mayor Williams, Chairperson Cropp, and Dr. Gandhi have been accessible and responsive to the children, families and communities as we have developed this budget process has been critical to the success of the process thus far.

Our base budget for fiscal year 2006 was \$775 million, but in the development of the budget we realized that there were some educational investments that would be unfulfilled but were critical to our ambitious academic agenda. However, the board and I agreed that we would live within the amount we were allocated for 2006, different from previous years.

However, the Council helped us secure an additional \$15 million to prevent a loss of 269 teaching positions. I thank Chairperson Cropp, her colleagues and others who were very helpful in that regard.

In addition, we received an interdistrict transfer of \$3.7 million for private special education out of State tuition payments. So our revised budget amount is \$794 million, with an additional \$21 million to support unmet needs in our budget. Thus our total appropriated amount for fiscal year 2006 is \$815 million in local funds.

The projected Federal grant revenues for fiscal year 2006 total \$145 million and we have other funding streams that brings our budget up to approximately \$1.1 billion.

Another area where we have received additional needed support from the Mayor and the Council on the operating side of the budget is in the area of facilities. We have received an additional \$6 million to open up schools this year. We have targeted a number of

schools for landscaping, painting, sprucing up, looking at our gymnasias and our cafeterias.

To give you a sense of the condition of our buildings, however, 86 of our 147 schools are more than 50 years old and another 41 are 75 years of age or older. Between 1982 and 2000, just a scant number of schools have been fully modernized. I cannot overstate the simple premise that every student needs and deserves a decent learning environment.

To meet our most urgent facility needs in the context of fiscal realities, we developed the transition capital improvement plan adopted by the Board of Education in March of this year. This plan allows for more effective and strategic use of funds. It allows us to expand opportunities to partner with charter schools through co-location.

I am going to start to wind up this presentation and this testimony, but I would like to highlight a couple of initiatives that have continued to be of importance to us in the school district, the first of which is the Tuition Assistance Grant program. This program has opened up college opportunities to many families for the first time and provided an additional incentive for middle class families to stay in the city. To build upon this, we have entered into a partnership with the College Board to promote development of the skills students need to succeed in college, and our high school guidance counselors have all been trained in the benefits of promoting the tuition assistance program.

Based on its value to the development of our students and the desirability of the city, we ask the committee to continue funding this important initiative.

Further, with respect to school improvement and the \$13 million appropriation coming from this subcommittee, I seek the continued funding for school improvement. These funds have enabled us to implement the Massachusetts learning standards for this coming school year. I would ask the subcommittee not to first insert special legislative language that might hamper the continued implementation of these standards. The continued funding is vital to the current academic reforms we have instituted.

Our use of school improvement funds will enable us to do—will enable us to continue to invest in the following key areas, ranging from the implementation of the learning standards, going fundamentally then with curriculum instruction, having a clear and rigorous assessment system, having the accountability that goes along with that, providing professional development of our staff, and looking at prevention through early intervention, that is establishing new opportunities for 3- and 4-year-olds to come to the District.

I believe, in conclusion, this operating budget will considerably advance our work at improving student achievement and assisting us in changing the institutional culture of the school system and make the necessary reforms so long needed.

#### PREPARED STATEMENT

This concludes my testimony and I, like my colleagues, will be here to remain part of the dialogue.

Senator BROWNBACK. Thank you, Dr. Janey.

[The statement follows:]

PREPARED STATEMENT OF DR. CLIFFORD B. JANEY

Good morning, Chairman Brownback, Senator Landrieu and Members of the Senate Appropriations Subcommittee on the District of Columbia. I am pleased to be here with Mayor Williams, Chair Cropp and Dr. Ghandi.

INTRODUCTION

I believe the fiscal year 2006 budget request act reflects the collaborative spirit necessary for our educational agenda to be realized. I believe we must move aggressively to meet the needs of our students. Our goal must be to regain our educational focus, improve student performance, raise student expectations and establish a system of accountability. With this in mind, our fiscal year 2006 budget was designed to begin to address the malaise in our system by proposing new initiatives that address three key goals. The goals inherent in the budget are to boost academic standards, improve facilities and update and upgrade our instructional technology.

FISCAL YEAR 2006 BUDGET

Under the leadership of the board of education, along with the support of those assembled here today, we began the budget process and had to accept the widespread feeling that our schools operate in an isolated and detached manner. We felt that addressing the public's concerns would go a long way to improve the overall environment of learning and boost student achievement. With this in mind, we began the process of building a budget to encompass the feelings of stakeholders and the desires of parents for more academic rigor.

To a certain extent, we were able to accomplish this by investing our allocated amount for fiscal year 2006 of \$775 million in quality academic programs and operational reforms.

If we continue to stay focused on our common goal of improving the quality of education for D.C. students, we can accomplish even more. The support and leadership of the board of education and the fact that Mayor Williams, Chair Cropp and Dr. Ghandi have been accessible and responsive to our children, families and communities as we developed our fiscal year 2006 budget has been critical to the success of this process thus far.

Our base budget for fiscal year 2006 was \$775 million, but in the development of the budget, we realized there were educational investments that would be unfulfilled but were critical to our ambitious academic agenda. However, the board and I agreed that we would live within the amount we were allocated for fiscal year 2006.

However, the council helped us secure an additional \$15 million to prevent the loss of 386 teaching positions. In addition, we received an intra-district transfer of \$3.7 million for private special education out of state tuition payments. So, our revised budget amount is \$794 million, with an additional \$21 million to support the "unmet" needs of our budget. Thus, our total appropriated amount for fiscal year 2006 is \$815 million in local funds. The projected federal grant revenues for fiscal year 2006 totals \$145 million and we have other funding streams that brings our budget up to \$1 billion.

Another area where we have received additional needed support from the mayor and council is in the area of facilities. We have received an additional \$6 million to open the schools this fall.

To give you a sense for the condition of our schools, eighty-six (86) of our 147 schools are more than 50 years old. Another 41 are 75 years or older. And, between 1982 and 2000, only four schools were added to or rebuilt.

I cannot overstate the simple premise that every student needs and deserves a decent learning environment. To meet our most urgent facilities needs in the context of fiscal realities, we developed the transition capital improvement plan adopted by the board of education in March 2005.

This plan allows for a more effective and strategic use of funds. This also will allow us to expand opportunities for co-locating to support charter schools. Most recently, we have identified ten schools as possible co-location sites for charter schools to co-locate for this fall one year. I envision there possibly will be greater opportunities to co-locate or for charters to occupy additional buildings upon completion of the master education plan. The rationale for the one-year lease is to allow time for the development of this master plan, which will guide both our academic and facilities plans for the coming years.

*Tuition Assistance Grant Program*

This program has opened up college opportunities to many families for the first time and provided an additional incentive for middle class families to stay in the city. To build on this, we have entered into a partnership with the College Board to promote development of the skills students need to succeed in college and our high school guidance counselors have all been trained in the benefits of promoting the tuition assistance program. Based on its value to the development of our students and the desirability of our city, we ask the committee to continue funding this important initiative.

*School Improvement*

Further, I seek the continued funding for school improvement. These funds have enabled us to implement the Massachusetts standards for this coming school year. I would ask the committee not to insert any legislative language that would hamper the continued implementation of these standards. The continued funding is vital to the current academic reforms I have instituted. Our use of school improvement funds will enable us to continue to invest in the following key areas:

- Curriculum and instruction.*—Develop grade-by-grade standards in science, social studies, and four electives. This process will incorporate the best standards from around the country. At the same time, English/language arts and mathematics curricula will be developed and linked to textbook adoption.
- Assessments.*—Implement periodic benchmark testing to monitor progress of students throughout the school year, identify students who need support so that help can be provided, and help tailor training for teachers and principals to meet students' needs.
- Accountability.*—Adopt an effective schools initiative that is more closely aligned with NCLB standards and will reach more schools with additional support and resources. The research-based approach, which is based on the successful performance improvement mapping (pim) model being used in Massachusetts, aligns more closely with federal standards in NCLB.
- Professional development.*—Work with our standards content consultants in an ongoing process to help teachers develop the knowledge, skills and tools they need to take ownership of the standards and curriculum.
- Prevention and early intervention.*—Renewing the emphasis and system wide mandate for early intervention in the context of general education, including academic and behavioral supports and other services for struggling students, will enable DCPS to meet the needs of more learners, improve student achievement, and reduce the number of inappropriate special education referrals.

I believe this operating budget will considerably advance our work at improving student achievement, assist us in changing the institutional culture of this school system, and make the necessary program and operational changes that will benefit the children in our classrooms and, ultimately, the citizens of the District of Columbia.

This concludes my testimony. I will now answer any questions you may have.

Senator BROWNBACK. We will run the time clock 5 minutes back and forth, so we will just try to ask some pretty good questions and very quick questions and then do a couple of rounds here if we can.

Dr. Janey, we held a hearing on education and both Senator Landrieu and I are very concerned about what is taking place in the D.C. system and the results or lack of results that have taken place for school children in the District of Columbia. I want to focus in on your physical plant issue if I could to start off with, because you have noted, Chairperson Cropp has noted, the dilapidated condition of your physical plant.

You have about 147 school facilities. What do you believe that total number should be? Where do you think that number should actually be, given what your enrollment is today and where your students are located?

Dr. JANEY. I cannot give you a precise number of schools because we are currently in the process of building this plan. By December of this year we will have a master education plan that will really frame how many facilities that we should have pre-K through 12, the types of uses for those facilities, so that we would be able to

have finally right-sized the District. So we are in that process right now, Senator.

Senator BROWNBAC. Could you give me any comparables in the country of student population, of what the D.C. area is, and what the number of school facilities would be in a comparable district? You do not have it determined here yet, but what would be a comparable in the United States?

Dr. JANEY. Boston might be comparable in enrollment, give or take 2,000 or 3,000, 4,000 students, and I believe their number of facilities is probably 15 or 20 less, I think. But I would not want to say factually for the record. But Boston is somewhat comparable to the District of Columbia in enrollment.

Senator BROWNBAC. I do not think you have closed any schools since 1999. This was an issue when I was chairing the authorizing committee before, that we need to get more resources into fewer physical plants. We need to upgrade these physical plants.

It is a similar thing that we are going through on military bases across the country, across the world, is we are trying to get into fewer buildings and get them upgraded so that they are better. I have been in a couple of your physical plants. They clearly need upgrading. There is just no question about it.

But there has a will to say, okay, we are going to take the dollars that we have and we are going to put them in the physical plants that we need, and the other ones, we are just going to have to close.

I know this was a tough issue back then. It is a tough issue now. I do not know if we need to provide assistance to be able to strengthen your hand to be able to move forward on that, but it strikes me this is going to be one of the fundamental issues we are going to have to face, is get more resources put into fewer physical plants for students.

Dr. JANEY. I think the technical aspect of the issue, meaning looking at the enrollment against the number of schools, that is not the big lift. Looking at the types of educational programs and services and then projecting over time what the enrollment will be, that is a second consideration.

But when you talk about consolidation, when you talk about closing schools, you talk about shared use of schools, often it comes down to political will and where will people stand once you make that decision.

Senator BROWNBAC. I understand all of that. I understand the difficulty.

Dr. JANEY. So that it rests more in that area than it does in the other two.

Senator BROWNBAC. When the statement was made by the former speaker about all politics is local, talk about schools and it is real local, and it is a very tough issue to deal with.

Dr. JANEY. I have heard Mr. O'Neil say that many times.

Senator BROWNBAC. Mayor Williams, thank you for your presentation here. I want to go at one area and then I want to come back to you, if I can, a little bit later. You talk about the level of taxation within the District, some of the highest taxation within the country. I think even Chairperson Cropp was talking about a punitive tax structure, I believe is the terms that I heard you use.

Do you have plans or should you or are you considering plans for reduction of that tax structure within the District of Columbia as a further effort and opportunity for growth for the District of Columbia, if your tax structure is so punitive and so high?

Mayor WILLIAMS. Well, I can ask Chairman Cropp to speak to the Tax Parity Act that the Council passed, what was it, in 1999 I believe, which provided for a series of reductions of income tax in the city. We have worked together where we could, certainly on a strategic basis, reducing taxes for business. I have worked with the Council in providing cap relief for property taxpayers, who are suffering from escalating housing prices and hence assessments and hence levies, on the basis of that.

In this year's budget there is \$88 million in tax relief. I think it is about \$40 million of that is the latest tranche of this Tax Parity Act, which I strongly support, because this latest stage of the Tax Parity Act actually is providing increasing tax relief to moderate and low income citizens. Then we have also added to that, with the strong support of the Council, additional tax relief that would total about \$88 million.

One of the things I am particularly proud of is we say to homeowners—there are two things, actually. Chairman Cropp can speak to the latter. One is, if you are a homeowner, a household making less than \$50,000 a year, you do not pay property taxes on your home until you sell it. I think that is going to provide great relief for the strain faced by middle income households, who are seeing their property values go up, but those assessments and those property levies can be onerous.

Then number two—and I give her full credit for this—Chairman Cropp, at her urging we have included in the budget relief for custodial grandparents who are taking care of these kids in many instances and should be supported. You talk about supporting families. This is something I really salute her for, providing hope for—providing help for these custodial grandparents in terms of tax relief to allow them to shoulder the burden of raising these children.

I do not know if you want to speak to any of those issues, Chairman Cropp.

Ms. CROPP. Thank you, Mr. Mayor.

The Mayor and Council have worked very hard to look at ways to reduce the burden for our citizens. We are challenged also by our own success with regard to real estate property. What we are finding in the District is that the housing costs have gone up, they have tripled or quadrupled, but the salaries have not matched it. The average cost of a house in the District is roughly around \$350,000, \$375,000, where the average salary is about \$70,000, \$75,000.

What we have now is we have some people, particularly seniors, who may be in a house that they bought 50, 60 years ago for \$40,000, whose house may be worth about \$500,000, \$600,000, \$700,000, \$800,000 now, but their annual income may only be \$25,000 to \$40,000 a year. So the taxes are getting at a level where either we force them to sell their house and leave the District, because if they sold their house it is nothing else they could buy in the District with that money.

So in the Mayor's budget, working with the Council, we have devised a way to work with these seniors that they do not have to pay the property taxes until after they sell their house.

However, there is another group who is impacted by this and why the city needs to look at it. Let us look at new college graduates, young professionals just starting out. The average median income in the District of Columbia has just risen to \$89,000 for a family of four. That is not enough money to be able to buy a house and deal with affordable living, housing.

So this budget is also dealing with that issue. We are looking and wrestling with tax packages that will actually reduce the rate that people pay on taxes and also we are looking at the cap again. The cap appears skewed in the sense that you say people who have a higher value house will get more money and that is true, but it does not mean in the District of Columbia that people who have a higher value house are rich people.

Senator BROWNBACK. In farm country we would say of a farmer, he lives poor and dies rich. Just the income off the farm is not that much, but he sits there for a number of years, works hard with his family, and at the end of life he has some value. But the income is not there. And so I really do applaud your efforts to try to deal with that situation.

We should not have a punitive tax structure within the District of Columbia. I am glad you are working to assess that.

Mayor WILLIAMS. Mr. Chairman, if I could just say one thing. I think one reason why the taxes are high, I would get back to our original testimony, is again because of this structural imbalance. The Federal Government basically tells me I only have access to half of my tax base. So you are trying to run an operation with only half of your tax base, and if you believe the GAO, which says that really there are costs beyond our control, you are going to end up overtaxing that limited base you have.

So while the relief that we have embarked on I think is important, we cannot miss the underlying really critical importance, I think, of addressing the structural deficit. I would personally think that the Fair Federal Compensation Act is one good way to do that.

Ms. CROPP. I was going to say the same thing, Senator. What the Mayor is saying is absolutely factual. The District, not unlike any other city, has a population that is older, sicker, and poorer. Most cities get the help from their surrounding areas to help offset that problem.

Ironically, the absolute reverse happens in the District of Columbia. We help subsidize our more affluent suburban areas. More than 56 percent of the people who work for the District of Columbia government—not the Federal Government, not the private sector, but the District of Columbia government—live outside of the District of Columbia. That is not through our control. That is through a Federal mandate that that occurs. So we cannot even tax that revenue at its source.

For every dollar earned in the District of Columbia, we can only keep 33 cents of it. The difference between other major cities and the suburban areas surrounding it, the State helps to offset that cost, that loss, and we have no offset for it.

Senator BROWNBACK. I have gone 10 minutes instead of 5 and I will give that to my colleague.

I do want to recognize Congresswoman Eleanor Holmes Norton, a dear friend of mine. Over the years I have worked with her. You were hiding behind the Mayor so I did not see or I would have recognized you at the very outset.

Senator Landrieu.

Senator LANDRIEU. Thank you, Mr. Chairman. I also want to acknowledge Congresswoman Norton who is here. I thank you for your work and your support. Your input has been invaluable to this subcommittee as we have worked through some of these issues and I really appreciate your help and support.

I wanted to, Mr. Mayor, go on the record as supporting your comments regarding the structural imbalance. As you know, the record-setting report by GAO actually requested by the Congresswoman and me was issued I believe 2 years ago now. We did have a quite lengthy hearing on the subject. That report basically in my mind put to rest the question as to whether a structural imbalance exists.

It is clear that it exists. It is clear that it is between \$400 million, I think, Dr. Gandhi, \$400 million and \$1 billion. It is clear from the exchange that we just had that as we move to address that one of the real results could be a lowering of very high tax rates in the District, which would be good for everyone and a real benefit for future development.

So I know that there are several proposals. The Congresswoman has a proposal. Several proposals have been put forward. But Mayor, would you take a minute, and perhaps Dr. Gandhi take a moment, to talk about some aspects of these that you think are particularly encouraging or a way that you would like us to try to think about approaching this? Would it be a rebate of taxes that the District residents pay from the Federal Government? Could the Federal Government look at some other ways that we could fill that structural imbalance? Because it is really a question as to what the Federal Government can do.

Do you want to put anything into the record, comments on that this morning?

Mayor WILLIAMS. Well, my own view, Senator Landrieu, is—and I have stated this publicly a number of times; I would just use this occasion again—is I really do believe that a promising vehicle for addressing this is the District of Columbia Fair Federal Compensation Act of 2005, which was introduced by Congresswoman Norton. I think there are two key provisions of this that I think are becoming in my mind in running the city day to day.

One is it is an annual Federal outlay on a formula basis, so you can resolve this matter once and for all and we do not have to revisit this over and over again. I think there is a lot to be said for settled expectations and everything else.

Number two, it would be dedicated to exactly the things that this subcommittee has addressed, the GAO report addressed, and we have heard today in testimony: the transportation projects, the extraordinary debt service that the city has to suffer because we do not have state support, public school facilities, information technology.

I believe that a real offset of all this—number one. Number two, a real offset of all this would be we would see then with these investments increasing relief, not only for individuals but also for businesses, because actually the GAO will tell you, our Federal City Council will tell you—I am getting now the councils mixed up—the Federal City Council will tell you that the real extraordinary burden in terms of taxation now is on our businesses.

So the Council has made progress and I salute them for reducing the burden on our individuals. But if you are a small business in the city or a business in the city, what you are paying versus Maryland and Virginia is clearly extraordinary. This would allow us to address that.

Senator Landrieu.

Senator BROWNBACK. Dr. Gandhi.

Dr. GANDHI. I think the Mayor has spoken quite well on this issue. I think what this chart shows, Mr. Chairman and Mrs. Landrieu, is that the District can manage itself very well financially. It is like we can manage a household very well. The question is what happens when the roof falls down, what happens if I have a flood in the basement? The larger infrastructure issue is the only puzzle that needs to be resolved, and that cannot be resolved locally.

I think Ms. Norton's proposed legislation is an excellent idea. That would provide us the kind of recurring annual, predictable budget relief that we need. But more important, what we have there is basically a capital fund, that money would be spent only on infrastructure, the buildings, transportation, technology, debt service.

So it is not that Congress gives that money to the city and we start five new programs and hire 1,000 new bureaucrats. No. The funds would basically be taking care of an infrastructure that needs to be repaired and should be worthy of the Nation's Capital.

Senator LANDRIEU. Thank you. I would like to agree that I think one of the strongest aspects of that proposal is that it creates a capital fund which would be able to be accountable and transparent. How the money was spent—it could be used at discretion, of course, of the city, but could be a real signal of strategic investments for the growth of the city and also provide some tax relief across the board.

On that, I want to mention that I am particularly pleased with the tax relief and the recognition of the rising value of homes in the District—the blessing of that, but the burden to people on fixed incomes, particularly seniors. I really want to commend you, Chairman Cropp, for looking at that area, and the Mayor, and trying to provide some relief in an innovative way, so the city is not giving up revenue. It may be postponing it, but it really allows those families to have some relief that is so necessary today.

Ms. CROPP. Senator, if I may, on the capital fund issue that you were talking with the Mayor and Dr. Gandhi about, to say how important it is. Legally, the city has a 17 percent ceiling on our budget that we cannot spend more in capital projects. But the reality is that Wall Street, the bond rating agencies, will not let us go over—Dr. Gandhi—probably about 8 or 9 percent?

Dr. GANDHI. Nine percent.

Ms. CROPP. Nine percent. We are fairly close to that level. So that even if we decided as a city that we wanted, or even if we had the money for the infusion for our schools, we could not do it because our bond rating would then drop down and we are just in a terrible position.

So this capital fund is just so very important for our schools, as we look at Metro. Metro, which has been the pride of the Nation, is now at an age where it needs to have a reinvestment. So for our capital budget it really is problematic. That capital fund will be very helpful.

Senator LANDRIEU. Well, I appreciate that. I would only say that this is not the only city that has limits to its capital expenditures. There are cities all over America that struggle with these limits, put on either by themselves or by agencies or by State governments or by necessity because of the finances, and it is a complicated issue.

You can also use cash when it becomes available and not increase your bonding capacity, and it is always good to use cash when you have got it and not increase borrowing, and your surpluses allow you to take that cash and use it wisely, which you have done in your proposal.

But I want to get to, in one moment—the chairman has been very gracious here. But I would like to get to you, Dr. Janey and the Mayor, about the facilities issue for our schools. There are a couple of solutions. I know these are difficult. But one, the overall budget for the school system is \$1.1 billion, which we are still trying to get a handle on exactly how that breaks down per student compared to other cities, which is the way I would like to compare it, not States, because I think comparing it to States is apples to oranges, but I think comparing it to cities accurately reflects the real costs.

This is the document that I have for the record. I am sorry, it is fiscal year 2003. I am sure it can be updated. I do not have it this morning. But based on this document that we had in fiscal year 2003, Orleans Parish, which is my home town, was spending \$6,500 per student, Baltimore was spending \$10,000 per student, Milwaukee was spending about \$11,000 per student, and the District of Columbia was spending \$13,000 per student.

Now, these numbers may have changed and if we can just get this updated then we will know and put that into the record.

[The information follows:]

City	Per Pupil Spending	Enrollment
Orleans Parish, LA .....	\$6,560	70,246
Alameda Co. (Oakland), CA .....	\$7,122	10,615
Houston, TX .....	\$7,236	212,099
Kansas City, KS .....	\$7,827	20,810
Baltimore, MD .....	\$9,639	96,230
Cincinnati, OH .....	\$9,677	42,715
Milwaukee, WI .....	\$10,352	97,293
Montgomery Co., MD .....	\$10,580	138,983
Alexandria, VA .....	\$12,736	10,971
Washington, DC .....	\$13,328	67,522
Arlington, VA .....	\$13,334	19,135

Source: U.S. Census F-33 Annual Survey of Local Government Finances for 2002-2003.

Senator LANDRIEU. But the point is that \$1 billion plus budget for the District schools is more than most cities of this size and demographics have. One way to capture funding for facilities is to have some savings or efficiencies, whether it comes through some savings through facilities or operations. If you had a 5 percent savings, which is \$50 million, you could take that money and bond it and create a bond issue to invest in schools.

Another way is to use the assets of the school system itself, which, Mr. Mayor, I understand that there are 39 schools on this list of surplus property. Fourteen have been either leased or sold as according to the city law for charter schools. But there are an additional 17 schools that could either be leased according to now the local law and the Federal law, to give a preference, a strong preference to charter schools.

The money generated from these transactions could go to the benefit of the school system. It could go to the benefit of the school system. It does not have to go to the benefit of the general fund of the city.

So there is a real win-win, Mr. Chairman, as we take steps to co-locate, to make these vacant in some cases and surplus facilities available to schools, to use the profits of that, if you will, for the school system itself.

In addition, some of these buildings have been available for housing under the control of the city through the control board. They have been very successful housing developments. I am aware of some of them. But again, the moneys that were generated by the sale of those buildings could have gone back to the school system. I do not think that happened. I think that went back to the city general fund.

So I would just ask that we look at the assets of the school system, how they can be better used to help the problem that we have, and to recognize that there are right now, without any additional Federal help, some real opportunities for enhancements of these facilities.

Senator BROWNBACK. As you can see, my colleague has dug into this pretty deep and is quite committed to it, and I look forward to working with her on some of these topics.

If I could turn quickly to a couple of things on another set of topics. When I was the authorizing chair we did a number of structural changes in the District of Columbia. This was in 1997. I think Connie Mack was one of the key individuals involved in the negotiations. A lot of structural changes were made at that time. That is when the homestead or the first time home buyers accounts were put in place, which I think have been very successful in the District of Columbia. We are trying to replicate them in other places across the country.

One of the things that we had looked at and considered is putting in place in the District of Columbia a flat tax making the Federal income tax a flat tax in the District of Columbia. It had pretty good support. I put in a bill along with Congressman Paul Ryan on the House side. Jack Kemp supported it.

One other item, though, I want to throw out for you. We did several years ago individual development accounts, trying to get people of low income to save. We had a Federal match of but \$2. For

every \$1 that the individual would save, we would match it with \$2, as an attempt to increase personal savings—and we called it an individual development account. Let us start building up this.

I was wondering, Mayor, in looking at the need to support families, if we should try to expand that concept on marriage development accounts, where a couple raising children but at a low income level, not necessarily at a poverty level but at a low income level, that we would try to use that same concept.

I put it out as something that we are looking at. I want to see if the concept has worked for the individual development accounts or not, if you look at it and say, well, it has worked some, not that great, or if it has really worked well. Is that something we could expand in this category to try to encourage and support that institution where generally children thrive the best? So I put that out for you.

We will look forward to working with you on this budget, and on other items. Again, I congratulate you on the many areas of improvement. We have got some possibilities and some things to work on. I look forward to working with my colleague, who is very knowledgeable and has been on this subcommittee for some period of time.

#### ADDITIONAL SUBMITTED STATEMENT

The subcommittee has received a statement from Paul Strauss, the shadow Senator for the District of Columbia which will be placed in the record at this point.

[The statement follows:]

#### PREPARED STATEMENT OF PAUL STRAUSS

Chairman Brownback, Ranking Member Landrieu and others on the subcommittee, as the elected United States Senator for the District of Columbia I would like to thank you for the opportunity to present this statement on behalf of the people of the District of Columbia.

I fully support the fiscal year 2006 Budget Request for the District of Columbia. It is vital for my constituents that the Budget Request is met in full. As the elected U.S. Senator for the District of Columbia, I myself cannot vote on this appropriation. I am limited to merely asking you to support their requests. Unlike citizens of any other jurisdiction, we lack the legal rights to make these funding decisions on our own. This is not just an issue of simply allocating appropriations but, for the residents of our Nation's Capital, an issue of fundamental justice.

The District of Columbia should not have to look to Congress for financial determinations. Congress appropriates the money of local tax-payers, which rightly should be appropriated by local government. The money at issue is raised by taxing the local citizenry, and Congress should have no authority to interfere. This is again a case where the many restrictions on the District of Columbia's ability to self-govern adversely impact the taxpayers of your own states. Today's hearing, an exercise in bureaucracy, would be unnecessary if the District was free to conduct its own budget. I have made this argument many times before many committees of this body, and I will continue making it until the District of Columbia becomes a state. Most importantly, as long as Congress continues to control the District's budget, which should be operated by the District, Congress has an obligation to fully fund the budget request without hesitation.

Due to our lack of self-determination, we are unable to provide certain government services on a local level. As long as Congress continues to utilize city services, it has an obligation to fully fund city services. It is essential to the District that Congress pass this budget in time for the new fiscal year and avoid being held up in continuing resolutions. If the District's Budget is held up, vital spending adjustments are not allowed to be implemented and the cost of debt services increases. Each day the budget is delayed is a further impediment in our efforts to provide vital local services to the loyal tax paying residents of the District of Columbia.

The predicament and unneeded bureaucracy of our budget being held up every year can be resolved through Budget Autonomy. Our local budget has no relevance to Congress or any of your constituents, and is an unnecessary obligation on the national taxpayer and the national legislature. Since fiscal year 1996, the District of Columbia has unfailingly provided Congress with a balanced budget, consistently demonstrating that it is a competent governing body. It therefore seems extraordinary that such a proficient and capable body should not be given the rights to pass its own budget without policy interference and social riders regulating the government within the District. It should be within the legislative remit of the District of Columbia to make its own economic decisions, and not Congress.

The District of Columbia has submitted a budget that has called for significant, increased investment in public services and education. Mayor Williams, Chairman Cropp, and Chief Financial Officer Gandhi have explained the specifics and I support their efforts. The budget request is balanced, thorough, and accounts for the needs of the residents of the District of Columbia. It will provide more money to be spent adequately on education and family services on a per capita basis than ever before. The money to be invested in education is crucial if we are to be able to meet our aims of improving education for all who live in the District.

I am the only elected official whose children attend D.C. public schools. Our public schools have been making good progress, but we still face huge barriers in our ability to provide a holistic educational experience. For example, in 2005, 49 of the District's 167 public schools had no music teachers and 44 had no art teachers. My own child's school, Stoddet Elementary, lacked a second grade teacher, and the first and second grades had to be combined. Without the proper funding, the District will never be able to break such barriers, and the children who live in the District will always be at a disadvantage.

The District should be able to provide the type of education every child in this country deserves. The budget request includes \$1 billion to fund our public schools. Of this, \$779.3 million will be dedicated to the District of Columbia's Public Schools; \$234.4 million for the District of Columbia's Public Charter Schools; and \$25.2 million for the Educational Investment Fund. The request also includes \$147 million in capital funding to support improvements to public school buildings in the District. The request represents an increase of \$81.6 million on the fiscal year 2005. The additional request will be spent on improving 11 new charter schools and will create an Educational Investment Fund to help improve student and school attainment. These investments will help provide essential facilities that will help provide an appropriate educational environment.

The public school administration has worked hard to build a budget that will sustain the public school system. To avoid losing 386 teaching positions, \$15 million was secured for the school budget. An additional \$6 million was secured to help open schools this fall. The administration accepted this budget, and was confident that it could operate within the amount allocated. In other words, there should be no need to close any facilities. It is outrageous that D.C. schools should be shut down to compensate, not for a deficit within the District's budget, but rather for a deficit in the national budget. Students of the District of Columbia should not be penalized for Congress's inability to balance the budget.

In addition to allocation to public schools, the budget request also includes monies dedicated to improving Higher Education and lifelong learning in the District of Columbia. Higher Education is a crucial part of our aim of improving education in the District. It is essential that those who want to learn be given the opportunity to do so regardless of their age or economic situation. The main focus of our efforts will be improving the availability of programs and facilities at the University of the District of Columbia. This includes an allocation of \$8.3 million to expand programs in sectors such as nursing, social work, and teacher education; \$8.2 million to extend opening hours for libraries and to invest in additional facilities; and \$700,000 in financial aid to support a further 474 students from low-income backgrounds. The budget request would help address some of the problems faced by the District's Education Services, who continue to achieve remarkable results in less than favorable conditions, by providing funds for vital programs, facilities, and resources.

Besides money allotted to the education sector, the budget request includes a significant allocation to children and family services, namely the Children and Youth Trust Corporation, the Department of Youth Rehabilitation Services, the Child and Family Services Agency, and the Department of Human Services. The District of Columbia has made great strides in tackling the problem of juvenile crime over the last year, as the falling rate of crimes committed by juveniles illustrates. However, we continue to strive to make further progress in this area and to tackle the underlying causes of these problems. The Budget request provides sufficient resources to

be able to attack the causes of many of the problems the district faces, and should therefore be supported in full.

Included in the budget request is a \$14 million allocation to construct or improve 7 recreation centers; \$6.5 million for child services; and \$13.5 million for juvenile intervention initiatives. These improvements are crucial to the lives of thousands of juveniles in the District who are striving to improve their lives, and who deserve the opportunity to fulfill their potential. The budget request would help fund these programs that would subsequently help address problems such as crime and drug use, which continue to plague the District of Columbia. Subsequently, this would reduce the burden on your constituents whose taxes are being spent on the problems in the District.

As well as the investment in youth, the budget request also allocates significant investment in Health and Welfare services. This includes an allocation of \$9 million to expand healthcare services, including dental and primary healthcare services; \$8 million to provide school nursing services; \$14 million to help address the problem of homelessness in accordance with the Districts 10 year plan; and to begin the construction of Wellness Centers in Wards 4 & 6. Health and welfare are key areas we need further investment if we are to be successful in decreasing, and eventually eliminating, poverty in the District. It is, therefore, imperative that the budget request should be met in full in order for the District Health and Welfare Services to continue their good work.

Congress should focus on the District of Columbia's budget in respect to resolving the structural imbalance of the budget. The gap between the District's ability to raise revenue at reasonable tax rates, and the ability to provide services of reasonable quality to its residents, jeopardizes the District's ability to retain residents. Instead of being penalized for residing in the District, citizens should receive same the constitutional rights as all Americans. I would go as far as to suggest that it is fundamentally un-American that the population of the District of Columbia is not allowed to spend their own taxes.

The government of the District of Columbia needs to be fairly compensated by Congress for the services it provides to federal agencies. This would serve as a solution to the structural imbalance within the District budget. The District's budget represents the citizens of the most unique city in the Nation. The District has repeatedly provided Congress with a budget that has proven sensible and attainable. The outlook for the current fiscal year 2006 is projected as balanced with a surplus. The District Government itself is the best evaluator of local expenditures. The reoccurring record of balanced and responsible budget management during times of economic hardships and declining revenues is yet another fact that proves the District's elected officials can govern the district.

The elected officials are persistent in attaining locally raised revenue needed to fund various local interests such as public service and education. The city should be allowed to utilize tax dollars in a more flexible manner. This would subsequently give the District government the ability to provide the community greater benefit from the revenue. Flexible use of revenue specifically secures and stabilizes public service departments within the city. My constituents have the right to receive the needed revenue to meet their children's educational needs. I urge you to approve the proposed budget, as it is deemed necessary to aid the District. The District of Columbia has submitted a timely budget so Congress has appropriate time to approve it.

In closing, I wish to sincerely thank the subcommittee for holding this hearing. I know that this subcommittee has been firmly committed to meeting its fiduciary obligations. On behalf of my constituents, I thank you for all your hard work and dedication and I look forward to working with you in the future. In closing let me thank a member of my legislative staff, Marta Mudri, for her assistance in preparing my testimony.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator BROWNBACK. If there are any additional questions, they will be submitted to each of the witnesses for their response.

[The following questions were not asked at the hearing, but were submitted to the District for response subsequent to the hearing:]

## QUESTIONS SUBMITTED TO ANTHONY A. WILLIAMS

## QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

*Question.* Your fiscal year 2006 budget includes a total of \$1.1 billion in local funds to educate approximately 80,000 students within the District of Columbia Public Schools and public charter schools. This funding level is a 10.5 percent increase over the fiscal year 2005 budget. Why do you continue to increase funding for schools while enrollment declines?

Total enrollment for the D.C. Public Schools (DCPS) and the public charter schools has in fact been quite stable. In 1997–1998, total enrollment was 77,361 students, comprised of 77,111 DCPS students and 250 charter school students. In 2004–2005, total enrollment of 78,145 is slightly above the 1997–98 level, with 62,306 students in the D.C. public schools and 15,839 students attending public charter schools.

The increased funding for schools in fiscal year 2006 reflects a number of factors. First, the uniform per-student funding formula increased by 3.07 percent this year to reflect inflation, but did not cover the automatic pay increases provided to school staff that exceed the inflation rate and are needed to keep D.C. schools competitive with suburban jurisdictions. (At least three of the five surrounding suburban jurisdictions offer higher entry-level salaries for teachers, and all five have a higher top salary level). Therefore, the Council added \$14.9 million to the D.C. Public Schools budget to provide schools with enough funding to cover these pay increases and avoid layoffs, as well as a corresponding increase of \$4.9 million to the public charter schools to maintain equitable funding through the uniform per-student funding formula.

Second, Mayor Williams proposed and the Council approved funding of \$21 million to support the reform initiatives of DCPS' new leadership, which are squarely focused on academic achievement. Those include:

- development of standards for all subject areas and professional development for teachers centered around the new content standards;
- new textbooks aligned to the content standards;
- art and music programs for all schools that presently lack such instruction;
- after-school reading and math programs;
- expansion of Advanced Placement and International Baccalaureate programs;
- a “Summer Bridge” program for students entering high school with low achievement scores;
- the creation of a principal leadership academy; and
- the opening of parent and family resource centers.

Charter schools also received a corresponding sum of \$4.2 million to institute programs to improve student achievement.

Special education is the other major area in which the budget has grown. DCPS' fiscal year 2006 budget reflects an increase of \$20.7 million in non-public tuition payments for students receiving special education services at non-public institutions (much of which reflects higher costs of tuition), as well as \$6.8 million in tuition payments for special education students in foster care (\$3.8 million of which reflects a budgetary transfer from the State Education Office rather than a net increase). DCPS also received a \$2.6 million increase to provide educational services at a newly opened intake and assessment center for youth in the juvenile justice system.

*Question.* I understand that only 50 cents of every operational dollar spent by DCPS actually goes to directly educate children. The national average is 61 percent. Why is this average so low and how have city leaders proposed to change this?

*Answer.* The statistics cited above are from state-level data published by the National Center for Education Statistics (NCES), which defines “classroom instruction” as the amount of money spent on teachers, aides, textbooks, and classroom supplies. Although DCPS is below the national average in this category, it spends more than the national average on “student support” (legally mandated special education services such as assessments, speech therapy, occupational therapy, and physical therapy, as well as counselors and social workers), as well as “instructional support” (librarians, instructional technology, standards, curriculum, assessments, and teacher training, much of which is funded by federal grants that are restricted to certain purposes).

According to the NCES data, DCPS' spending on classroom instruction, student support, and instructional support totals 70 percent of its budget, which is almost identical to the national average of 72 percent and is identical to the 70 percent figure for 20 urban school systems of similar size. The comparison group includes such cities as Oakland, Atlanta, Boston, Baltimore, New Orleans, San Antonio, and Milwaukee. Therefore, DCPS' spending on classroom and instructional activities seems

close to the national average and similar to the spending patterns in other mid-sized cities, and its spending for central administration appears to be just below the national average.

Reducing special education costs through early intervention and increasing the capacity of local schools to serve all children is key to ensuring that more of the District's educational dollars flow to direct instruction. DCPS' expenditures for special education tuition payments at non-public schools and the transportation of special education students are particularly high, as are costs for litigation related to special education.

A number of initiatives are underway to control special education costs and ensure that children can be properly served by the public school system. The Prospect Learning Center, which serves elementary and middle school students with learning disabilities, is newly renovated and can now serve 120 students in a state-of-the-art facility. DCPS has increased its internal capacity to educate students with severe disabilities by creating more than 600 new seats for autistic children; students who are hearing or vision-impaired; children who are mentally retarded, learning disabled, or emotionally disabled; and early childhood special education students. More than 75 percent of those seats have been filled. DCPS' data also shows that 200 students have returned from private placements to DCPS and that DCPS has stabilized the number of students going out to private placements. Overall, DCPS reports that it has established more than 400 new special education seats in local schools for 2004–2005, bringing the number of slots created in the past three years to nearly 1,800, and that capacity will increase by another 600 seats in 2005–2006.

Expanding capacity within the school system and reducing the number of private placements will in turn enable DCPS to reduce the large costs it incurs to transport special education students to school. Presently, the transportation office is run by a court-appointed administrator. The cost of operating 600 bus routes to serve 4,000 children is approaching an annual rate of \$75 million per year, and must be reduced. One important step to reduce transportation costs is under consideration by the Board of Education: purchasing buses to reduce the cost of operating a fleet presently comprised of leased buses. The District's Chief Financial Officer has projected the savings at \$5.6 million in fiscal year 2006 and \$24.1 million between fiscal year 2006 and fiscal year 2010.

The Mayor, Council, and Chief Financial Officer have also implemented a system of performance-based budgeting that shows the funding provided to particular programs or activities, rather than budgeting only by "object classes" (such as personnel, fringe benefits, and supplies) or organizational units. The fiscal year 2006 budget is the first that DCPS has prepared in the performance-based format. The performance-based budget gives policymakers increased ability to track where resources are going and will support the efforts of the Mayor, Council, and Board of Education to maximize the funding allocated to classroom instruction.

For example, the performance-based budget presents the budgets for all of the central administrative or management functions (personnel, procurement, information technology, financial support, policy development, oversight, etc.), showing that central administrative functions will cost \$36.1 million in local funds in fiscal year 2006. This amounts to just over 4 percent of DCPS' local funds budget. Policymakers will now be able to budget explicitly for central administrative and other functions to make sure that administrative costs are controlled and that classroom spending is maximized.

The strong commitment of the Mayor and Council to focus resources on academic achievement and classroom instruction was reflected in the fiscal year 2006 budget cycle. As described in the answer to question #1, Mayor Williams proposed \$25.2 million in additional funding to support academic improvement initiatives at DCPS and the public charter schools. The Council approved the additional funding proposed by the Mayor, and also added \$19.8 million to the uniform per-student funding formula that finances school-based instruction.

*Question.* Do you believe that Dr. Gandhi—your CFO—has sufficient control over the D.C. Public Schools' expenditures? School spending seems to increase every year with no improvement in student performance.

*Answer.* As provided by the Financial Responsibility and Management Assistance Authority (FRMAA) Act of 1995 (Public Law 104–8), the Chief Financial Officer (CFO) has sufficient authority and control over DCPS expenditures. The broad authority provided by FRMAA includes:

- implementing appropriate procedures and instituting such programs, systems, and personnel policies to ensure effective budget, accounting, and personnel control systems are in place;

- supervising and assuming responsibility for financial transactions to ensure adequate control of revenues and resources, and that appropriations are not exceeded;
- ensuring reliable accounting results to serve as the basis for preparing agency budget requests and controlling the execution of the budget;
- maintaining custody of all public funds belonging to or under the control of the District government;
- apportioning all appropriations and funds made available during the year for obligation in order to prevent obligations or expenditures that would result in a deficiency;
- certifying all contracts prior to execution as to the availability of funds;
- certifying and approving prior to payment all bills, invoices, payrolls, and other claims, demands, or charges; and
- preparing monthly financial reports on DCPS' revenue and expenditures.

The Office of the Chief Financial Officer (OCFO) has effectively used this authority to monitor and control spending, identifying potential over-spending and developing and recommending gap-closing plans for approval by the Board of Education and the superintendent of schools. The DCPS CFO has also played an important role in monitoring the implementation and expenditure of federal grants, reducing the total of lapsed grants from \$687,000 in fiscal year 2003 to \$165,000 in fiscal year 2004.

For fiscal year 2006, the DCPS CFO will receive additional budget authority of \$300,000 and three full-time positions to create a special education financial accountability unit within his office. This unit will work with DCPS' Office of Special Education to implement rate-setting agreements with special education providers, to document information about the placement of children and the duration of these placements, and to monitor and control costs.

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QUESTION SUBMITTED BY SENATOR MIKE DEWINE

BIOTERRORISM AND FORENSICS LABORATORY

*Question.* In the fiscal year 2005 appropriations bill, we included \$8 million for the architectural design and planning costs associated with the construction of a new bioterrorism and forensics laboratory in the District of Columbia. I am pleased that the President's budget request for fiscal year 2006 built on that appropriation and included \$7 million for the laboratory.

How are you using the \$8 million we provided in fiscal year 2005? Please give me an outline of your timeline for completion of the construction of the lab, and I would also like you to discuss the operational costs for the lab once it is up and running.

*Answer.* In fiscal year 2005, the subcommittee provided \$8 million in funding for design, planning and procurement costs associated with the construction of a new consolidated laboratory facility. We will have obligated the entire amount by the end of the fiscal year. We have been working on programming the services and facility needs for and have spent \$1 to \$2 million to date. We plan to spend the balance to conduct the procurement for design services this summer. Starting in fiscal year 2006, we will begin the bidding and early construction phases of the project and we plan to complete the project by fiscal year 2009. We have reviewed more than a dozen sites for the lab and have narrowed our choices to two. We expect to make a final decision this summer.

The District plans to incorporate public health, forensics, medical examiner, and bio-agent analysis capacity. We will also consider options for adding additional local functions to the facility, which may result in additional project costs up to as much as \$250 million. Once the facility is completed, we plan to fund the operational costs for the lab with local resources. The District is currently expending approximately \$21.5 million on the functions to be relocated to the lab (excluding detective costs) and once the lab is up and running, costs are certain to increase as we have the capacity to provide services that were previously beyond our capacity. These costs may rise to as much as twice our current expenditures and we plan to fund these at the local level.

## QUESTIONS SUBMITTED TO LINDA W. CROPP

## QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

*Question.* Nationally, 34 percent of babies are born to single mothers. In the District, 57 percent of babies are born to single mothers. Research shows that 80 percent of long term child poverty occurs in broken or never-married families. The beneficial effects of marriage on individuals and society are beyond reasonable dispute. What is the District doing to promote healthy marriage and reduce out-of-wedlock births?

*Answer.* The District of Columbia provides a comprehensive network of services available to families.

Within the Department of Human Services, the District initiated the Strong Families Program (SFP) in October 2002 to provide comprehensive case management services and family preservation support services to vulnerable families in the District that present multiple, complex challenges which place them at high risk for family separation and/or disintegration. This program was created to serve as a "safety net" for TANF dependent/eligible families experiencing acute social, emotional or familial distress. The program is structured to provide prevention and early intervention services to families who would otherwise become known to the District's child welfare, juvenile justice, homeless, mental health or criminal justice systems.

Since its inception, the Strong Families Program has achieved the following outcomes:

- Served 547 families in fiscal year 2005, and 434 families in fiscal year 2004.
- Established satellite case management program offices at 13 underperforming schools in the District.
- Provided on-site, in home case management and family support services to two (2) public housing sites.
- Formed partnerships with faith-based institutions and the District of Columbia Public Schools (DCPS) to open Family Resource Centers at select schools.
- Sponsored the District's first weekend Family Retreat to promote positive family interactions, communications, parent respite services and family development activities, for families served by the program.
- Sponsored a range of school-based, family development activities such as mother/daughter luncheons and teas, father/son barbecues and family fun days, in partnership with DCPS. These events are specifically designed to foster parent/child bonding experiences, social skill development and parent to parent socialization.

Within the Child and Family Services Agency, the District has leveraged federal funding to jumpstart the Family Team Meetings (FTM) program. This initiative is a strengths-based early intervention family engagement model that brings families, community members, and child welfare professionals together to discuss the safety concerns and the needs of the child and his family. Occurring at the critical moment of concern, the FTM process increases the opportunity for family participation, identifies supports and resources in the extended family and community, speeds the process for permanency, and ensures that social workers base decisions on the best information available. Family team meetings are being held for all children at-risk of removal and for placement changes for children in foster care.

Since its inception on September 15, 2004, the Family Team Meeting initiative has the following outcomes: 171 FTMs have been held; 326 children have been served; the average number of participants per FTM is 11; and total number of family member participants is 732.

We expect that our focus on reunification through FTMs will result in children returning home sooner. In addition, we are just beginning to using FTMs for placement changes involving children, so families can participate in placement changes and perhaps serve as resources for children.

*Question.* You have requested a 30 percent increase in the Resident Tuition Grant Program. Last year, the Congress provided an increase of almost 50 percent over the fiscal year 2004 level. I understand that enrollment continues to increase for this popular program. Do you believe that this rate of increase will continue?

*Answer.* Cost increases for the Tuition Assistance Grant Program over the last two years have been driven a rise in program participation, nationwide increases in tuition costs, the phase-in of the program to a full five cohorts, and our efforts to expand eligibility. The District has also required rapidly rising appropriations over the last two years because we no longer have a balance of funding from prior years to help offset our rising costs.

Costs in the future will continue to rise, but will slow considerably from the growth rates of recent years. We are no longer in the program's phase-in stage and growth in tuition nationwide may slow as states' budget crises ameliorate. Over the next several years, we expect program costs to be driven by tuition cost increases and moderately growing program participation, albeit at dramatically lower levels than in recent years. (One area where we may see additional program growth is within the District's Latino community).

Although we expect growth to slow, we still expect costs to rise steadily over time at a rate that may be difficult for the federal government to fund, given limitations on resources. Therefore, the District is pursuing authorization for selected cost containment measures that will allow us to take administrative measures to contain the future growth of program costs.

*Question.* As I noted in my opening statement, the city is creating jobs at a rate that is twice the national average, but only one-third of the jobs that the District is creating are going to city residents. Why is this and what is the District doing to change this?

*Answer.* During the last six years, we have added more than 60,000 jobs in the District, yet we still face employment challenges. Last year, the unemployment rate in the District increased from 7.2 percent to 8.2 percent. And broad citywide figures mask the reality that in many communities unemployment is concentrated at much higher levels.

The District's budget this year included a package of legislative proposals and funding initiatives to combat these disparities. These initiatives aimed to lower the unemployment rate across the District, but especially in communities east of the river, and ensure that residents benefit from the city's significant increase in number of jobs.

These proposals will help the District's hard to employ residents overcome their barriers to unemployment, successfully compete in today's labor market, and achieve economic self-sufficiency by dedicating substantial resources to job preparedness, life skills, leadership, and pre-apprenticeship training for adults and youth. In order to complement these efforts, the District is also working to secure cooperation and participation of private sector employers in helping employ District residents to the fullest extent possible. These proposals include the following:

- Invests an additional \$6.4 million to train and provides summer employment for 10,000 District youth between ages of 14 to 21.
- Invests \$4.9 million in the Youth Leadership Institute and year-round education and training for 465 hard-to-reach youth between ages of 16 to 24.
- Invests \$8.9 million in transitional employment and pre-apprenticeship training assistance for 800 chronically unemployed residents.
- Invests \$150,000 to increase enforcement and monitoring of current First Source hiring requirements and provide the Mayor additional authority to increase First Source requirements in certain industries.

In addition to these funding proposals, the District is also considering legislation at the local level that will accomplish the following:

- Creates a job opportunity bank, funded by District businesses remitting one-half of one percent of the economic assistance received from the District, to provide job training grants and assistance to low-income District residents.
- Requires District-assisted employers to pay a living wage of \$10.50 per hour or \$9.25 per hour if health insurance benefits are offered to employees.

*Question.* You are requesting \$5 million to provide incentives to developers and organizations to construct housing specifically for the ex-felon community. Could you elaborate on this proposal? How will it be implemented? How many ex-offenders are returning to the District every year? What is the recidivism rate in the District?

*Answer.* The District is proposing federal funding for a new initiative that would provide incentives to encourage developers and non-profit organizations to rehabilitate or construct new housing for reentrants in order to increase the pool of available housing for those exiting the criminal justice system. We have identified access to housing as one of the most important risks to recidivism for individuals making the transition from prisons back into society. We expect as many as 2,500 offenders to return to the District on an annual basis in the years ahead, making efforts to combat recidivism as important as ever.

Recidivism rates in the District are calculated by CSOSA. In fiscal year 2004, the parole rearrest rate was approximately 13 percent; for probationers, approximately 20 percent. Approximately 6 percent of the total supervised population was convicted of a new offense in fiscal year 2004, and approximately 2 percent were incarcerated as a result of that conviction. In fiscal year 2004, approximately 11 percent of the supervised population was revoked for violations of release conditions (includ-

ing arrest). The majority of revocations result in reincarceration; approximately 10 percent of the supervised population were incarcerated as a result of revocation.

Our ex-felon housing program will be integrated with the District's ten-year plan to combat homelessness and individuals occupying this housing will have access to the full range of social services provided by the District of Columbia to at-risk populations, including job training, substance abuse and mental health counseling. Integrating housing solutions with social services is critical because almost 70 percent of returning offenders have a history of substance abuse and face job placement barriers along with educational challenges.

We will administer the initiative within the Department of Housing and Community Development (DHCD), which has the infrastructure in place to monitor housing construction incentives as part of the Housing Production Trust Fund. DHCD will issue a special Notice of Funding Availability (NOFA) to solicit developers of these housing units. The NOFA will include restrictions on developers using the funds: developers must derive reentrant tenants from designated non-profit support service agency; units must be dedicated to reentrants for a period of at least five years; and operating funds for the first six months of tenancy are eligible project expenses. This will allow us to providing targeted funding that encourages the development of cost-effective housing options for our ex-felons.

We will coordinate services for individuals residing in this housing through the D.C. Re-entry Initiative. Services provided by the initiative will include employment services and job-readiness training are provided in partnership with the Department of Employment Services; Unity Health Care provides health care delivery and is about to open a new clinic for this purpose; UDC provides a GED program, as well as college courses. Supportive services will also be provided by the Department of Mental Health when needed.

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#### QUESTIONS SUBMITTED TO NATWAR M. GANDHI

##### QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

*Question.* According to GAO, the District of Columbia Public Schools have had significant management problems. What are the critical problems that have led to DCPS' inability to even account for the number of employees on its payroll?

*Answer.* Prior to fiscal year 2004, the DCPS Office of Human Resources (OHR) managed the employee roster (Schedule A) for the agency. Recognizing that the OHR lacked the capacity and systems to accurately manage this function, the new DCPS CFO assumed this responsibility in order to accomplish accurate budgeting and achieving a balanced budget. Even with the lack of an automated and integrated Human Resources and Payroll system, the OCFO manually maintains the Schedule A and has brought it to the point where the document is current and portrays the correct number of employees, their salaries, and their location in the agency. This document is critical in tracking current and historic vacancies. A Human Resources and Payroll management system is critical to sound management practices. The current system is responsible for employees not being paid accurately or receiving their salary increases or step movement on time. The DCPS OCFO has invested significant resources into cleaning up this problem. To date, all DCPS employees are receiving their correct salaries. The DCPS OCFO maintains this manual process, but it is critical that the system move forward with a more automated and integrated system.

*Question.* Why don't the D.C. Public Schools use the same administrative and personnel management system as the rest of the District government?

*Answer.* Several years ago, the DCPS began to develop and implement an administrative personnel management system independent from the District's systems. However, these systems did not develop to the operational stage. The School Board and Superintendent partnered with the District's Office of the Chief Technology Officer to move DCPS into the District's personnel and procurement management systems. In addition to partnering on these systems, the DCPS is also participating in the District's budget system with other city agencies. In addition, the DCPS will begin participating in the District's human resource and payroll systems.

*Question.* As CFO, what authority do you have to control escalating costs within the D.C. Public School System? What recommendations would you make to help DCPS get its financial house in order?

*Answer.* With respect to the annual budget for the Board of Education in the District of Columbia, the Home Rule Act allows the District to establish the maximum amount of funds which will be allocated to the Board, but does not allow the District to specify the purposes for which such funds may be expended or the amount of such

funds which may be expended for the various programs under the jurisdiction of the Board of Education. The primary control that the CFO has with respect to the DCPS budget is to ensure that DCPS does not overspend its annual appropriation. While the CFO has the authority to require DCPS to curtail spending in the event a potential deficit is identified, the specific strategies to implement this requirement falls under the purview of the Superintendent and the Board. Over the past several fiscal years, the OCFO has worked with the Superintendent and the Board to identify potential overspending of the DCPS total budget and develop viable and realistic strategies to curtail spending in a manner that does not severely impact the main mission of the DCPS, which is to educate the District's children. The success of this close collaboration is evident in the fact that the DCPS has managed to close its last two budgets in balance. For fiscal year 2005, it appears that the DCPS budget will once again close in balance.

With regard to recommendations on strengthening the financial position of the DCPS, the most important recommendation is to continue the strong collaboration between the Superintendent, the School Board and the OCFO in supporting the mission of the Superintendent and DCPS strategic plans. It is my opinion that vital, stable and collaborative DCPS leadership is the critical element in ensuring DCPS will continue to manage its resources in a wise and prudent manner. The OCFO will continue to support the DCPS leadership in this regard.

*Question.* What, if any, additional authority do you need as CFO to focus on and correct the fiscal management problems facing the District?

Answer. The OCFO is required to estimate revenues far in advance of the fiscal year in order for the District to participate in the congressional budget cycle. Granting the District budget autonomy would allow the District to build a budget closer to the start of a fiscal year and would allow the OCFO to provide more appropriately timed and therefore more informed revenue estimates.

*Question.* One criticism of the GAO report on structural imbalance is that the District has significant Medicaid billing and claims management problems. How are you working to address this problem?

Answer. In 1999, recognizing that there were significant issues with Medicaid billing and claims management, the District hired an outside contractor to work with two of the public provider agencies, the D.C. Public Schools (DCPS) and the Child and Family Services Agency (CFSA), to increase Medicaid revenue for services provided by these agencies. Concurrently, key issues relating to Medicaid billing and claims management were identified, specifically:

- Maintaining appropriate documentation supporting Medicaid billing,
- Developing a clear comprehensive strategy to optimize Medicaid revenues among the public provider agencies; and,
- Establishing standard business practices leading to the identification of appropriate Medicaid-eligible programs and services.

Since that time, improvements have been realized in the Medicaid billing and accountability system within the public provider agencies. Although the OCFO is not directly involved in the development or modification of agency programs, the OCFO has been working with the District's Office of Medicaid Operations Reform to address the key issues noted above and establish a system of ongoing and routine reports that will demonstrate improvements in the process for calculating the Medicaid revenue each fiscal year and monitor Medicaid revenues and expenditures.

*Question.* I understand that the District has made great strides to get its financial house in order, but what are the remaining problematic areas in the D.C. government in terms of financial mismanagement? How are you addressing those areas?

Answer. The 2004 Annual Audit noted that there are no material weaknesses to report (compared to three in fiscal year 2001 and two in each of fiscal year 2002 and fiscal year 2003) and there were two reportable conditions to be addressed (the same number as fiscal year 2003 but down from six in fiscal year 2001 and three in fiscal year 2002). Specifically, the areas to be addressed are (1) Management of Disability Compensation Program and (2) Unemployment Compensation Claimant File Management. A copy of the Management Letter and its appendix are being submitted for the record. These documents provide a robust explanation of the issues to be addressed as well as the OCFO's response to these issues. As the documents will detail, both issues are being appropriately addressed.

GOVERNMENT OF THE DISTRICT OF COLUMBIA, OFFICE OF THE INSPECTOR GENERAL  
MANAGEMENT LETTER

APRIL 8, 2005.

The Honorable ANTHONY A. WILLIAMS,  
*Mayor, District of Columbia, John A. Wilson Building, Suite 600, 1350 Pennsylvania Avenue, N.W., Washington, D.C. 20004.*

The Honorable LINDA W. CROPP,  
*Chairman, Council of the District of Columbia, John A. Wilson Building, Suite 504, 1350 Pennsylvania Avenue, N.W., Washington, D.C. 20004.*

DEAR MAYOR WILLIAMS AND CHAIRMAN CROPP: In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year 2004, KPMG LLP submitted the enclosed final Management Letter. We are pleased to report, as noted by KPMG LLP, that over the last 5 fiscal years there has been a marked improvement in the management of the District's financial affairs. This Management Letter details certain matters involving internal control and other operational matters that require continued management attention which is presented as follows:

—Appendix A—Reportable Conditions in Internal Control Over Financial Reporting; and

—Appendix B—Other Observations and Recommendations on Internal Control and Financial Operations.

KPMG set forth recommendations for correcting reportable conditions and other deficiencies. While the Office of the Inspector General will continue to assess the District agencies' implementation of recommendations, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,

AUSTIN A. ANDERSEN,  
*Interim Inspector General.*

Enclosure: See Distribution List

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KPMG LLP,  
Washington, DC 20036, March 24, 2005.

GOVERNMENT OF THE DISTRICT OF COLUMBIA LETTER TO MANAGEMENT ON INTERNAL  
CONTROL—SEPTEMBER 30, 2004

To the Mayor and Council of the Government of the District of Columbia Inspector  
General of the Government of the District of Columbia

LADIES AND GENTLEMEN: We have audited the basic financial statements of the Government of the District of Columbia (District), for the year ended September 30, 2004, and have issued our report thereon dated January 24, 2005. In planning and performing our audit of the basic financial statements of the District, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented in the appendices for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

Our audit procedures are designed primarily to enable us to form an opinion on the basic financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the District's organization gained during our audit work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Mayor and Council of the District, the Inspector General of the District, District management, and others within the District government and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP.

*Executive Summary*

Over the last five fiscal years, as the District's independent auditors, we have witnessed marked improvement in the management of the District's financial affairs. Important milestones that the District is understandably proud to report to the Council and its citizenry are:

—Removal of Control Board oversight;

- Eight consecutive years of unqualified opinions on the District's basic financial statements included in its Comprehensive Annual Financial Report (CAFR);
- Return of operations that had been placed in receivership by the District courts;
- Successful implementation of Governmental Accounting Standards Board's Statement No. 34, the most far reaching change in governmental accounting and financial reporting to date;
- Implementation of a District-wide financial and compliance audit of its federal awards programs;
- Continuous improvement in General Obligation bond ratings from BBB to A;
- Continuous acknowledgement of excellence in financial reporting from the Government Finance Officer's Association (for its CAFR, Budget Document, and most recently for its Popular Annual Financial Report); and
- Continuous improvement in internal control, evidenced by the reduction in the number of reported material weaknesses three and reportable conditions six in fiscal year 2000, to zero and two, respectively in fiscal year 2004.

#### *Address Reportable Conditions*

As noted above, the District has taken corrective actions to address and eliminate a number of reportable conditions in internal control, some of which were material weaknesses. The next step in continuing to improve the District's financial reporting infrastructure is to address the remaining reportable conditions highlighted in our Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Yellow Book Report), and to implement a process to continuously monitor compliance with established internal control policies and procedures.

Reportable conditions relate to significant deficiencies in the design or operation of internal control over financial reporting that could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management. These reportable conditions, while not as serious as material weaknesses, warrant District management attention. Matters currently classified as reportable conditions that are not considered to be material weaknesses are as follows: Management of Disability Compensation Program; and Unemployment Compensation Claimant File Management.

These current year reportable conditions and our recommendations are repeated in Appendix A. Our management letter comments, presented in Appendix B, highlight other internal control and financial management observations made during our audit, and what actions we believe the District should take to ensure its financial management infrastructure continues to improve. Management responses to our observations and recommendations are included in Appendices A and B. We have carefully considered those responses where management indicates that it disagrees with either our observations or recommendations. We continue to believe our comments are valid and that implementation of our recommendations will result in stronger internal controls or operational and financial management improvements.

#### *New Accounting Pronouncements*

Although there are no significant new accounting pronouncements that will need to be implemented during fiscal year 2005, there were two significant accounting pronouncements issued during fiscal year 2004 as Governmental Accounting Standards Board (GASB) Statements that will significantly impact the District's future government-wide financial position.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, an amendment to GASB Statement No. 34, and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions addresses accounting and financial reporting of post-employment benefits other than pension benefits (OPEB) by employers and plans or other entities that administer them. The principal impact of this Statement on the District relates to post-employment healthcare benefits that the District currently reports on a pay-as-you-go basis. GASB Statement No. 45 will require the District to accrue for post-employment benefits to be provided to employees and retirees, thus adding a significant liability not currently recorded in the District's government-wide financial statements.

### APPENDIX A.—REPORTABLE CONDITIONS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

#### *I. Management of Disability Compensation Program*

The District, through the Office of Risk Management (ORM), administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978. The most recent actuarial loss reserve anal-

ysis was performed in fiscal year 2002. For fiscal years 2003 and 2004, ORM has performed roll-forward procedures, using underlying assumptions included in the last actuarial report, in order to estimate the District's disability compensation liability at each year-end. We recommended that an actuarial analysis be performed for fiscal year 2004, however this recommendation was not implemented. We believe that the use of data that is more than one year old as a basis for these roll-forwards could lead to significant differences between the estimated liability and actual results for individual cases when complete data is available. Further, the accuracy of the underlying data used in the District's analysis has always been difficult to assess due to weaknesses in the maintenance of supporting claims files.

The ORM does not perform a timely review of past claims to determine whether the established reserves remain sufficient. In addition, we determined through claims test work that certain reserves were not removed timely from the tracking system, once a claim is determined to be closed. These conditions increase the risk that the underlying data, which is utilized for the District's roll-forward procedures, may be over- or understated. Additionally, seven out of 81 disability claim case files selected for test work could not be located for our review, and many of those that were provided for our review required extraordinary effort on the part of ORM personnel to locate. This is a similar result as noted in prior years.

We again recommend that ORM contract for an actuarial loss reserve analysis to be performed during fiscal year 2005, and each year thereafter. Additionally, we recommend that ORM:

- Review all active claim files on a periodic basis to determine if the recorded reserve is sufficient or if the reserve needs to be increased or decreased. The review of all active claim files is imperative before each actuarial analysis is performed, since an actuary would be utilizing such information in their analysis.
- Develop an effective managerial system to file and maintain both open and closed case files.

#### *Management Response*

ORM has requested monies for an actuarial report in its current budget. It is expected that the actuarial report will take place within the next fiscal year.

All Disability Compensation Program (DCP) files, both active and archived, were housed by the Third Party Administrator (TPA), CLW/CDM, Inc. in fiscal year 2004. CLW/CDM was responsible for maintaining all supporting documentation in each claim file. ORM acquired these files at the conclusion of the contract between the city and CLW/CDM in November 2004. The contract expired pursuant to court order on Friday, October 29, 2004. The archived files were subsequently moved and placed in storage at the District of Columbia General Hospital (DCGH). The active files were moved to 441 4th Street, NW, Suite 800 South. It is assumed that all files were turned over to ORM; however, at this time, it is difficult to verify this assumption. In addition, a number of active claim files were erroneously placed in storage when they should have been forwarded directly to ORM.

The Claims Supervisor of CLW/CDM, Inc. was charged with performing timely reviews of the adjusters' decisions establishing reserves. ORM was responsible for conducting periodic reviews of randomly selected claim files to determine if appropriate reserves had been established and/or removed. The previous database system did not allow ORM access to all of the data maintained by CLW/CDM with regard to this aspect of the claims. With the movement of the Third Party Administrator in-house, and obtaining its own Riskmaster database, ORM now has the ability to easily determine whether established reserves are sufficient.

ORM has entered into a contract for services, which entails capturing basic information on all claim files currently in storage into an Excel spreadsheet. This electronic database will allow ORM to effectively manage its closed case files. The new Riskmaster system, which went into operation in November 2004, will allow ORM to effectively manage all open claims files, and those, which are subsequently closed.

ORM expects to hire additional staff to provide more hands on file/reserve reviews and to conduct periodic audits.

## *II. Unemployment Compensation Claimant File Management*

The District's Department of Employment Services (DOES) is responsible for the administration of the Unemployment Compensation Program. In fiscal year 2004, the District made approximately \$114 million in unemployment benefit payments to unemployed former employees of private employers in the District and of the District and federal governments.

While testing internal controls over benefit payments, we observed that DOES was unable to locate 8 out of 30 claimant files supporting these payments. Federal regulations require that DOES maintain documentation supporting all payments of

unemployment claims. We noted that DOES has established policies and procedures requiring such documentation be maintained. However, DOES has not created a system of tracking the location of all claimant files and requiring such files to be checked in and out by DOES personnel using the files. We recommend that DOES create a database tracking the location of all claimant files and require that this database be updated each time a file is moved to a new location.

*Management Response*

Management concurs with the finding. If funding is available, DOES will implement an imaging and retrieval system for Unemployment Insurance documents. A pilot project is to commence within the next three months for imaging and indexing quarterly contribution reports. The imaging will be done by the contractor who currently enters data from these reports.

*Question.* In his fiscal year 2006 budget request, the President recommended that the Federal Government consider transferring ownership of some of its property in the City to the District. Have you estimated what kinds of revenues would accrue to the city if these transfers occurred?

*Answer.* The President has not yet released a specific plan for transferring ownership. Absent a plan that details the property and the method and conditions for the transfer of such land, the OCFO cannot at this time estimate revenues.

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QUESTIONS SUBMITTED TO DR. CLIFFORD B. JANEY

QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

*Question.* What has been the historic rate of growth in the Special Education budget for the D.C. Public Schools?

*Answer.* Special education spending (which includes funds allocated to local schools for special education, special education central office functions, related service providers, nonpublic tuition, transportation, attorney fees and special education hearings and appeals) across all funds has increase by 33 percent between fiscal year 2000 and projected spending for fiscal year 2005. The compounded annual growth rate (CAGR) between fiscal year 2000 and fiscal year 2005 is 4.88 percent and the average growth across the six fiscal years is 6 percent.

*Question.* I understand that about 20 percent of the children in the District have been identified as “Special Education.” How does this compare to other cities? How does this compare to previous years?

*Answer.* Using enrollment figures from the October 2004 audit, special education enrollment in DCPS was 18 percent; when the total D.C. public enrollment (charter and DCPS) is used, the percentage of students in special education drops to 16 percent. Special education enrollment has remained relatively static during the last five years, however, as DPCS enrollment decreases, the percentage that are special education increases.

*Question.* Are you concerned that students are being inappropriately identified as “Special Education?”

*Answer.* In a comparative analysis of DCPS’ Special Education enrollment to other urban districts, we have found that DCPS has similar levels of special education enrollment:

District	Special Education Enrollment	Total Enrollment	Percent Special Education
Baltimore City .....	14,012	108,015	13
Boston .....	11,433	58,310	20
Milwaukee .....	16,518	101,000	16
Oakland, CA .....	5,279	49,214	11

What makes DCPS extraordinary different from nearly every other school district in the country is the number of students attending nonpublic schools. Twenty-four percent of DCPS special education students are in nonpublic day programs, residential treatment facilities or are wards of the District placed in foster homes and attending public schools in surrounding counties. When students in surrounding counties are moved to the “public” side of the count—that is, they are served in public schools—the percentage of students in nonpublic programs decreases to 21 percent of DCPS special education enrollment and 19 percent of all D.C. public school (DCPS and charters) special education enrollment.

For comparison, the percentage of special education students in nonpublic placements is 4.5 percent in Boston and 5 percent in Baltimore.

*Question.* What percent of DCPS' budget is being spent on special education tuition and transportation?

Answer. Of the \$1 billion DCPS budget for fiscal year 2005, approximately 12 percent (\$120 million) will be spent on special education tuition and 8 percent (\$75 million) on transportation.

*Question.* Why do DCPS budgets continue to rise every year, even though enrollment is declining?

Answer. While enrollment at DCPS has declined over time, the number of students for whom DCPS pays tuition at private institutions and suburban schools has risen from 1,400 (SY 1999–2000) to 3,067 (SY 2004–2005). These increases have resulted in higher costs for the provision of mandated services.

The Local budget for DCPS has only grown at an average rate of one percent since fiscal year 2002 when a budget reduction of five percent that occurred in fiscal year 2003 is taken into account.

	Fiscal year—				
	2002	2003	2004	2005	2006
Local Budget .....	\$749.2	\$713.4	\$753	\$767.3	\$815.2
Growth From Previous Fiscal Year (percent) .....	N/A	094.78	5.55	1.90	6.24

Even though DCPS has experienced a modest growth in budget, DCPS has not had the ability to leverage these increases to support programmatic expansion. In fact, the increases have not kept pace with rising labor and mandated costs. As a result, DCPS has had to eliminate and curtail viable academic programs.

Recent budget increases have been used to support previously approved negotiated pay raises. Surrounding suburban districts, our primary competition for teachers and principals, have been raising salaries substantially beyond inflation, and as of next year, at least three of the five are offering higher entering salaries than DCPS. All offer higher maximum salaries than DCPS.

Additionally, DCPS has incurred higher costs associated with payments in tuition for D.C. students in private special education and suburban foster care placements, special education transportation, and a few state agency costs such as educational services at juvenile justice facilities; amounts that have grown enormously in recent years.

[In millions of dollars]

	Fiscal year—		
	1995	2005	2006
Negotiated Pay <sup>1</sup> Raises .....	.....	40.4	.....
Tuition-private placement <sup>2</sup> .....	12.5	76.0	86.4
Tuition-foster care & DMH wards .....	( <sup>3</sup> )	20.0	20.0
Transportation-special education <sup>2</sup> .....	12.7	62.0	62.0
Attorneys' fees (winning parties) .....	.....	9.8	6.8
Total .....	25.2	208.2	175.2

<sup>1</sup> Reflects incremental costs associated with fiscal year 2004 entitlement that permanently affected the base in fiscal year 2005.

<sup>2</sup> Will be higher than budgeted in fiscal year 2005 and fiscal year 2006 due to cost overruns incurred by court-appointed transportation administrator (\$75 million).

<sup>3</sup> Not in DCPS budget.

Recognizing the shortfalls in DCPS' academic program, Superintendent Janey presented \$38.5 million worth of unmet initiatives in an effort to move the system towards adequacy in programming. DCPS identified \$4.5 million in internal resources to be re-directed to support this program and the City has proposed an additional \$21 million. The remaining balance will be offset by the \$13 million in Federal Payment funding that is being requested as part of the Federal Appropriation. This funding will support important programming such as: their development of a comprehensive Art & Music program, and intensive reading and math program for at-risk students, establishment of Parent Resource Centers and continuation our School Accountability Model.

*Question.* It appears that, because of declining enrollment, it is imperative that some schools be closed or co-located. What are your plans to do that?

Answer. DCPS has developed a plan that serves as a bridge through this transition period while the Superintendent's Master Education Plan (MEP) is being devel-

oped. The MEP will provide recommendations regarding academic program offerings, grade configurations, neighborhood or cluster delivery models, Special Education Instructional models as well as address issues relative to school closures and co-locations. In line with this transition plan and as required by law, the Board of Education has already approved the Superintendent's plan for co-location in DCPS facilities. We are currently reviewing responses to invitations to co-location for the 10 potential sites. This transition plan calls for the co-location of ten schools that have been identified as potential co-location sites. Upon completion of the Superintendent's Master Education Plan, this transitional plan would be revised to specifically address issues such as declining enrollment and/or requirements for closing schools.

*Question.* I understand that about one-third of DCPS teachers are not certified. What progress are you making to ensure that all DCPS teachers have the proper teaching credentials for the 2005–2006 school year?

*Answer.* In March of 2005, we estimated that approximately 1,400 teachers did not have a current license. After requesting that these individuals update their credential, as of June 20, 2005, DCPS has identified 455 teachers with expired licenses and 533 teachers with no record of licensure or slightly less than 20 percent (988) of the teacher workforce. These teachers will be placed on a structured program that will facilitate licensure update by June 2006. Those who do not meet the respective milestones of this plan will be terminated at the end of the 2005–2006 school year. To enhance compliance with actions required to obtain licensure, DCPS has created the position of Licensure Specialist that will oversee and monitor licensure status. The position is expected to be filled by July 11, 2005. Additionally, we are ensuring that all newly hired teachers have the proper credentials prior to hire.

The State Education Office of Academic Credentials and Standards (SEA–OACS) have collaborated with the DCPS–LEA Office of Human Resources (HR) in identifying those individuals who hold a state teaching license. The SEA–OACS is prepared to handle the large volume of applications for license renewal that will occur as a result of the DCPS Office of Human Resources' notification efforts. Our goal is to maintain an application processing time of less than two weeks, therefore ensuring that all applications received prior to August 19, 2005 are processed and licenses sent out before the beginning of school.

*Question.* I understand that only 50 cents of every operational dollar spent by DCPS actually goes to directly educate children. The national average is 61 percent. Why is this average so low and how have city leaders proposed to change this?

*Answer.* The source of the 50 percent figure is the U.S. Department of Education's Fiscal Year 2002 Common Core of Data, by a definition that includes only teachers, aides, texts and classroom supplies and excludes such direct educational services as speech therapy, librarians, library books, computer labs, guidance counselors and school nurses. In that year:

- The District of Columbia reported spending for teachers, aides, texts and classroom supplies was 50 percent.
- The District of Columbia was very high on the “non-instruction” category of “student support,” which means legally mandated special education services (such as assessments, speech therapy, OT/PT, psychological counseling), counselors, social workers, attendance counselors, health services and the like.
- The District of Columbia was also very high on spending for “instruction support,” which means librarians; instructional technology; and standards, curriculum, testing, teacher training and testing.
- The District of Columbia was comparatively high on “operations and maintenance,” which means custodians, utilities, repairs, security, as well as on transportation, which is court-ordered.
- The District of Columbia was comparatively low on school administration and food service, and average on central administration/business services.
- Many of the “non-classroom” expenditures were funded by restricted federal grants, including food service, anti-drug and violence grants and No Child Left Behind grants for standards, curriculum, testing and professional development. Others are required by federal law and court mandates, including special education assessments, special education related services, and special education transportation.

In our own valuation of what is allocated to supporting students in the classrooms, we expend nearly 60 percent of our resources to do so. What worries me is that the definition of “classroom,” taken from the National Center for Education Statistics (NCES), does not take into account expenditures for critical services such as librarians, counselors, nurses, attendance officers, and assessments, therapy and transportation for special education students. We have high costs in these areas because of high enrollment in special education.

The issue with the NCES definition is that DCPS funds much more than teacher salaries and bureaucracy. According to NCES, we spend only 2.7 percent on general administration and 3.0 percent on business services such as payroll, human services, and procurement. The rest covers principals, libraries, counseling, special education related services (e.g., speech therapy, OT/PT, social workers, psychologists), teacher training, curriculum, testing, facilities, utilities, security, transportation, and the free lunch program.

Further when you factor in our unique role as both a State and Local Education Agency, we experience high expenditures in other categories. For example, 11 percent of our work force is engaged in transporting special education students to public, charter and private schools, under the direction of a court-appointed administrator. This translates into higher expenditure levels on the “non-instruction” category of “support,” which is required as part of court orders and Individuals with Disabilities Education Act.

We do believe more classroom support is needed but not by sacrificing librarians and counselors and elements of the accountability system such as curriculum and standards, teacher training, testing and other measures needed to comply with No Child Left Behind. Moreover, it cannot come at the expense of disobeying mandated special education requirements and health/safety issues DCPS must face.

DCPS is aggressively pursuing strategies to ensure that as much resources as possible can be directed towards the classroom. In fact, the Superintendent has commissioned the Council of Great City Schools to conduct an adequacy study to determine system needs, if any. It is hopeful that the findings from this study will provide District Stakeholders with the total investments needed to fully support the implementation of Statewide Standards and provide a better prescription of how to allocate resources.

*Question.* What additional tools do you need to better manage the D.C. Public Schools?

*Answer.* As I begin to implement the goals outlined in our Declaration of Education, the strategic plan for the District of Columbia Public Schools, I am cognizant that the managerial tools needed to reform a school system are different from those needed to sustain routine operations. In order to better align our educational program objectives and priorities with our fiscal resources as we plan long-term school improvements, it would be highly advantageous to have an independent Financial Officer that reports to the Board of Education and School Superintendent. While the school district would continue to be governed by all applicable fiscal regulations, the perspective of an independent CFO would be consistent with the mission of the school district in service to children, rather than the mission of a financial agency.

Also, because we have established new standards and will completely overhaul our educational infrastructure, multi-year budgeting would enable us to implement scheduled reforms without the threat of funding uncertainties from year to year. In short, an independent Chief Financial Officer and multi-year budgeting would anchor a long-term strategic framework and afford the long-range planning and implementation necessary to implement and sustain school improvements.

*Question.* How do you plan to use the \$13 million that this subcommittee provided in fiscal year 2005 and how do you plan to use the \$13 million that is being requested for fiscal year 2006?

*Answer.* I intend to use these funds appropriated in fiscal years 2004, 2005 and 2006 to specifically to accelerate the quality of teaching in preparation for the implementation of the new academic standards, curriculum, and aligned assessments. This will serve as the basis for a carefully structured framework for accountability.

It is important to point out that all the improvement programs must focus directly on teaching and learning. Research clearly shows that for reform efforts to have a measurable impact, they must dramatically change what occurs in the classroom. I believe by implementing new standards, developing curriculum and school- and system-level assessments, training administrators and teachers, securing high quality curriculum materials, and providing the means to hold schools accountable for results—all are critical elements that must come together to achieve significant and sustainable improvements in teaching and learning.

Through the plan, all of these elements will be optimized as part of a coherent and mutually reinforcing whole. We will be able to provide all District of Columbia Public Schools students with the kind of high-quality classrooms they deserve:

- Classrooms where standards, curriculum, instruction, and assessments are carefully aligned.
- Classrooms where every teacher clearly understands what is to be taught and assessed.
- Classrooms where all students learn.

*Question.* Dr. Janey, in your written testimony, you mention school improvement funds to be used to continue your investment in professional development. I am aware of the statistic that some 30 percent of the teachers in the D.C. Public School system are not certified. I believe that teachers are the most fundamental aspect of a child's education and this fact concerns me greatly. What have you been doing, and what are you planning to do, specifically, to ensure that the teachers in your classrooms are qualified to provide a good education?

*Answer.* To ensure our teachers are qualified to provide a good quality education, we've developed a Professional Development Master Plan that is intended to provide direction, guidance, and resources to educators as they develop their Individual Professional Development Plan (IPDP). We believe that effective professional development is on-going, school-based (job embedded) and organized around collaborative problem solving. The focus of our Professional Development Master Plan is as follows:

- Develop knowledge and skills in teachers in order to impact student achievement.
- Prioritization of goals based upon best practices with decisions based upon objective evidence gathered over time.
- Linkage to district goals to support the improvement of the whole system.
- Focused on enhancing the individual's knowledge of their field and knowledge of learners and learning. To this end, there must be an on-going assessment process, including self-evaluation and feedback from others, to guide further development.

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#### QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

##### SCHOOL CONSTRUCTION

*Question.* Chairman Cropp and Dr. Janey, what mechanisms are you considering to manage the \$150 million bond proposal for school construction? Would a venture capital entity work?

*Answer.* Project and capital program management for the D.C. Public Schools is under the purview of the Board of Education and Superintendent. A third-party entity, such as a venture capital entity could work, and has been considered. The Superintendent has made clear that he intends to transform his Office of Facilities Management to better manage its projects and more efficiently use its capital resources. The Superintendent has also stated that he is creating an office of strategic partnerships that would leverage DCPS resources with public and private entities to create alternative financing mechanisms for the DCPS capital program. Additionally, the Office of the City Administrator, Council staff, and DCPS staff are working collaboratively to identify partnership opportunities and other means to share and maximize resources through joint capital planning and coordination.

*Question.* Can we finance some of the debt service from rent paid by charter schools in co-location?

*Answer.* No. District law mandates that rent paid by charter schools through co-location/lease arrangements must stay with the local school—D.C. Code, Section 38–1831.01(b)(2).

*Question.* Dr. Janey, you have provided a list of 10 school properties, which will be offered for co-location. When will a request for proposals be issued to charter schools and what time frame will you be signing leases for the fall semester?

*Answer.* Requests for Letters of Interest were posted on the DCPS website from mid-May to mid-June. They are being reviewed now by Co-location Review Committees (one for each school that received a Letter of Interest). A public hearing is scheduled for June 29th, 2005 from 6–8 p.m. at 825 N. Capitol St. The Superintendent will present his recommendation for specific co-locations in July. It is anticipated that the Board of Education will approve or disapprove any co-location recommendations in July, and then for approved recommendations, direct the Superintendent to execute leases on its behalf in July.

*Question.* Dr. Janey, for the record, please provide the per pupil spending in DCPS and the components of that allotment (local, Federal, other)? Please provide a comparison with per pupil spending in other cities of similar size.

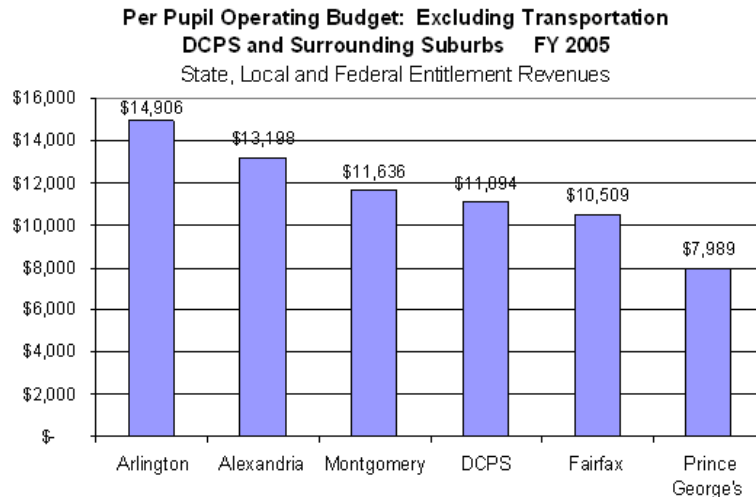
*Answer.* The referenced chart reflects the updated report conducted by the NCES and the Census Bureau. Fiscal year 2003 is the most recent year for which expenditure data are available, and if it follows previous timing, the Census Bureau will put out fiscal year 2004 data next March. That's as soon as an update could be provided. The only national data for school districts that's collected using comparable definitions are the NCES/Census data.

However, the following represents a regional comparison of Per Pupil Expenditures conducted by an independent watch organization in the D.C. area. We believe that regional comparisons are more useful tools as they provide insight to the competitive landscape in the Washington area and it accounts for regional cost differences that national comparisons fail to incorporate.

*Comparison with Suburban District Budgets*

The chart below depicts the fiscal year 2005 per pupil budgets of DCPS and its surrounding school districts. The Washington Area Boards of Education (WABE) calculates the suburban numbers by a standardized methodology that meets all the criteria above. We have applied the same methodology to the DCPS budget and enrollment, but subtracted transportation for all districts, since the transportation systems are not comparable.

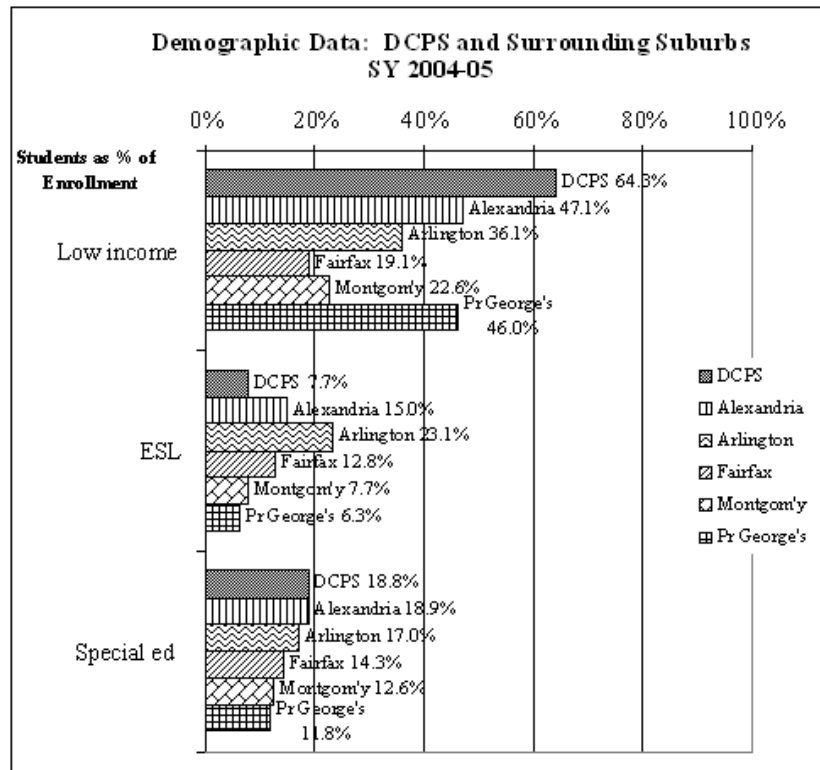
The WABE methodology as applied to DCPS includes most federal grant funds and teacher retirement, which we added from the city budget. In fiscal year 2005 DCPS has about \$3,800 less per pupil than Arlington County, about \$2,100 less than Alexandria, and roughly the same as Montgomery and Fairfax Counties. Prince George's County is far behind all the others.



The WABE methodology includes all local and federal funding in the districts' budgets except: Food service; Construction/capital; Debt service; Summer school; Adult education; Special ed tuition and transportation; Other state level costs (DCPS only): state agency functions, charter school oversight; Federal funding for state agency functions, private & charter schools, and short-term restricted programs; and Private grants and intra-District transfers.

WABE figures include: Teacher retirement; Federal 2005 funding for DCPS LEA: Titles I, II, IV, VI, VII, Vocational education, Special education, Impact Aid, Indirect Cost, Head Start, Reading First, Tech Literacy Challenge Fund, Comprehensive School Reform, State Assessments.

What the chart above does not reflect is any factor for student needs. As the chart below illustrates, DCPS has by far the highest percentage of low-income students in the area, and a much higher percentage of special education students, who receive higher cost services, than do Fairfax and Montgomery Counties. Based on student characteristics, DCPS should spend significantly more per pupil on average than any of its suburbs.



Because Fairfax County Public Schools use the WABE overall per pupil number and issue breakouts with per student budget allocation figures for general education, special education and ESL education, we have applied the WABE definitions and calculated DCPS budget allocations for fiscal year 2005 for these three categories to compare with Fairfax County allocations. Although the chart and figures are in the same format as the chart above for Basis 2, the numbers are different: those below include federal funds as well as local funds, add Teacher Retirement, and eliminate a few local budget lines not included in the WABE methodology.<sup>1</sup>

#### CONCLUSION OF HEARINGS

Senator BROWNBACK. Thank you for being here. Thank you for your hearts and your commitments that are making lives better for all people here and the people that come here.

With that, the hearing is recessed.

[Whereupon, at 11:43 a.m., Wednesday, June 15, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

<sup>1</sup> Food service \$2.8 million, summer school \$2.4 million, capital planning \$0.3 million.